



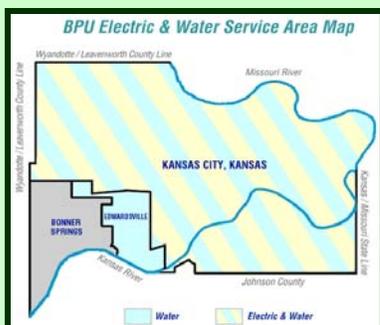
## Comprehensive Annual Financial Report

For

Year Ended:  
December 31, 2006

An Enterprise Fund of the  
Unified Government of  
Wyandotte County  
Kansas City, Kansas

Prepared by:  
Office of Accounting  
Office of Public Affairs



Nearman Water Treatment Plant



Robert L. Milan, Sr. Reservoir/Pump Station



Nearman Creek Power Station



Nearman Creek Cooling Tower

# Board of Public Utilities of Kansas City, Kansas

## Table of Contents

### Introductory Section

Letter of Transmittal .....	1
President's Message.....	2
Board of Directors Profiles - 2006.....	4
General Manager's Message.....	6
Senior Management Profiles - 2006 .....	8
Finance Report Overview .....	10
Certificate of Achievement for Excellence In Financial Reporting .....	14
Organization Chart.....	15

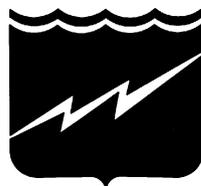
### Financial Section

Independent Auditors' Report .....	17
Management's Discussion and Analysis.....	19
Basic Financial Statements	
Balance Sheets.....	26
Statements of Revenues, Expenses and Changes in Net Assets .....	28
Statements of Cash Flows.....	29
Notes to Basic Financial Statements.....	30
Required Supplementary Information	
Schedule 1 – Schedule of Funding Progress.....	56
Supplementary Information	
Schedule 2 – Combining Balance Sheets .....	58
Schedule 3 – Combining Schedule of Revenues, Expenses and Changes in Net Assets .....	60
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters .....	61
Schedule of Findings and Response .....	63

### Statistical Section (Unaudited)

Financial Trends .....	65
Net Assets by Component.....	67
Combined Operating Statements .....	68
Revenue Capacity .....	69
Electric Utility System Sales .....	70
Water Sales .....	73
Debt Capacity .....	75
Utility System Revenue Bonded Indebtedness .....	76
Demographic and Economic Information.....	77
Electric Load Statistics in Kilowatts.....	78
Principal Electric and Water Customers .....	79
Employee Data.....	84
Demographic and Economic Statistics .....	85
Operating Information .....	87
Utility System Plant Additions .....	88

## **Introductory Section**



April 25, 2007

To the Board of Directors and Citizens of the Kansas City Board of Public Utilities:

The Kansas City Board of Public Utilities' 2006 Comprehensive Annual Financial Report (CAFR) is a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. We hereby issue the CAFR for the fiscal year ended December 31, 2006.

The CAFR was prepared by the Office of Accounting and is designed and presented in a manner to assist the reader in understanding its content. The report consists of three primary sections:

- The introductory section includes the Board President's message, the General Manager's message, this letter of transmittal, a copy of last year's Government Finance Officers Association (GFOA) Certificate of Achievement in financial reporting, and the Board of Public Utilities Organizational Chart.
- The financial section contains the Independent Auditor's Report, the Management Discussion and Analysis, the financial statements and footnotes and the Required Supplementary Information for the BPU. The combined financial statements provide a summary and overview of the financial position and results of operations of all the BPU's funds and account groups.
- The statistical section contains relevant statistical data including historical summaries of the level of expenses, revenues, and bond debt. The section also contains some general and demographic statistical information.

## PRESIDENT'S MESSAGE

As it has for nearly 100 years, the Kansas City Board of Public Utilities (BPU) continues to provide safe and reliable electric and water service to customers in our community. As a not-for-profit public utility, the primary focus of BPU remains its customers and the community. It is this community focus that makes BPU unique from many other utilities, and a valued business leader within the region.

As our community has grown and expanded, BPU has also progressed. Today, BPU provides services to nearly 70,000 electric customers and 55,000 water customers, providing the same safe, reliable and cost-effective service it has since it was established. BPU continues to be recognized as one of the top public utilities in the country, and with the help of the nearly 650 BPU employees who live and work in our community, the utility will continue its focus on customer service and providing quality electric and water service at the most affordable price.

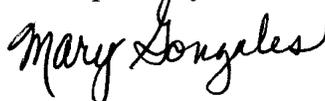
In 2006, the BPU focused on a number of community-based and environmental-focused initiatives, and received a number of industry awards. From partnering with the Unified Government and the Police Department to distribute 8,000 energy-efficient light bulbs in the community to help fight crime, to sponsoring "Save Energy" Workshops and a regional Green Build Conference for residents and builders, BPU is committed to protecting the environment as well as our neighborhoods.

BPU was also recognized as one of the nation's most reliable public electric utilities in 2006 by the American Public Power Association, receiving the Reliable Public Power Provider award. In addition, BPU received recognition for business efficiency and won an award for creativity, execution, and consumer appeal of its Web site ([www.bpu.com](http://www.bpu.com)), among others.

BPU has raised approximately \$300,000 for local children's organizations and is consistently one of the top contributors to United Way in the Kansas City metropolitan area. In addition, BPU helped fund several summer youth programs in Wyandotte County in 2006, donated proceeds from its charity golf tournament to the Children's Museum of Kansas City, and BPU employees participated in United Way's Day of Caring and donated supplies to local schools, among other things.

The BPU and its Board of Directors remain committed to open and transparent communications with our customers and the community. As it has since 1929, BPU will continue to meet the community's electric and water needs without losing sight that as a municipal utility, its primary mission is to ensure reliable and affordable utility services to its customers, while improving the overall quality of life in the communities we serve.

Respectfully,



Mary L. Gonzales  
President  
Board of Directors  
April 30, 2007



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## Board of Directors - 2006

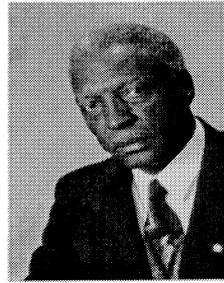
The Board of Directors is composed of six members, three of whom are elected at large and three of whom are elected by district. Every two years three members are elected for four-year terms. The Board chooses a president, vice president, and secretary from its own membership. The Board meets twice a month, on the first and third Wednesdays. Members receive a monthly salary of \$950. The treasurer of the Unified Government of Wyandotte County/Kansas City, Kansas is the ex-officio treasurer of the Board. The Board is charged with the duty to hire a General Manager, who serves as BPU's chief executive officer, and who administers the day-to-day operations of the utility.



**Mary L. Gonzales**  
**President**  
**Member at Large**  
**Elected 2001-2005**  
**Re-elected 2005-2009**

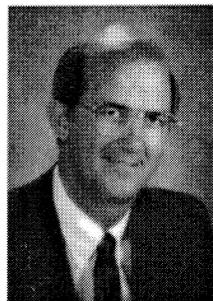
Ms. Gonzales also served previously as Vice President and Secretary of the Board.

Ms. Gonzales retired from teaching school in 2006 after a 33-year career. For many of those years she was an eight-grade language arts teacher at Piper Middle School. Besides her BPU Board and other community activities, she serves on the Ball Family Center Charter Advisory Council of the YMCA, and is a member of the American Public Power Association and the American Water Works Association. A graduate of Leadership 2000, she was also District 5 Coordinator in the successful effort to consolidate the Wyandotte County/city governments, and served on the advisory board of the Wyandotte County Library. In addition, she is past President of Delta Kappa Gamma International Educational Society. Ms. Gonzales has a Bachelor of Arts degree in Education from the University of Montevallo in Montevallo, Alabama, and a Master's degree in Curriculum and Instruction from Emporia State University.



**Robert L. Milan, Sr.**  
**Vice President**  
**Member, First District**  
**Elected 1991-1995**  
**Re-elected 1995-1999**  
**Re-elected 1999-2003**  
**Re-elected 2003-2007**

Mr. Milan also served as President of the Board from 1995 to 1997 and in 2002 to 2003. He worked at the U.S. Department of Labor for 32 years, retiring as a Federal Representative. He is active in the Northeast Optimist Club and NAACP. In 2001 he served as State President of AARP. He is also past President of AFGE Local No. 1748, a government employees' union, and served as Secretary of the Kansas City, Kansas-Wyandotte County Port Authority. Mr. Milan received the Annual Community Leadership Award from Saint Peter Methodist Episcopal Church in 2007. The Kansas City Globe selected him as one of the 100 Most Influential People in 1998, and Grinter Heights Neighborhood Association voted him "Man of the Year" in 1993. He received the E.A. Freeman Humanitarian Award from the NAACP, KCK branch in 2003. Mr. Milan also received the Distinguished Service Award from the TWA Black Caucus in 1982. A native of Kansas City, Kansas, he owned Milan's Roller Arena and Bowling establishment for many years. Mr. Milan is a Sumner High School graduate and attended Kansas City Kansas Community College, The University of Kansas extension, Donnelly College, the University of Colorado, Temple University and Pioneer College.



**John M. Pettey**  
**Secretary**  
**Member,**  
**Third District**  
**Elected 1995-1999**  
**Re-elected 1999-2003**  
**Re-elected 2003-2007**

Mr. Pettey served as President of the Board in 2001-2002. A life-long resident of the Turner area, Mr. Pettey is semi-retired from the real

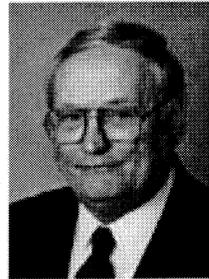
**Board of Directors – 2006 – (continued)**

estate and insurance business. He is a substitute teacher in the Turner School District and manages several properties. In addition, he is Vice President of the Turner Lions Club, on the board of United Way's Tri-County Smart Start program and President of the Argentine Activities Association. He is past President of the Independent Insurance Agents of Kansas City, Kansas. He was also an officer of the Wyandotte County arks Board and Past President of the Argentine Breakfast Club. He attended Ottawa University and Washburn University.



**Loretta M. Colombel**  
**Member, Second**  
**District**  
**Appointed 1998-1999**  
**Elected 1999-2001**  
**Re-elected 2001-2005**  
**Re-elected 2005-2009**

Ms. Colombel Previously owned a small business in downtown Kansas City, Kansas, and also worked for the Liveable Neighborhoods Task Force as a neighborhood organizer. In 2002 she was appointed to the American Public Power Association's Policy Makers' Council, where she serves as chair-elect. In 2001 Ms. Colombel graduated from the FBI's Citizens' Academy. She is past President and co-founder of Wyandotte Countians Against Crime, a former neighborhood organizer for the Regional Prevention Center, and was a member of the Kansas City Kansas Chamber of Commerce Board of Directors. She attended Bishop Ward High School before moving to New Orleans, where she graduated from East Jefferson High School and attended Tulane University.



**Jim Head**  
**Member at Large**  
**Appointed 2000-2001**  
**Elected 2001-2003**  
**Re-elected 2003-2007**

Mr. Head served as President of the Board in 2004-2005. He is a retired Certified Public Accountant. During the majority of his career, he worked in accounting firms, for the last 12 years as a partner and shareholder in Cochran, Head & Co., a local CPA firm. He was also a Controller for five years for a large mechanical contractor and then Controller for a large drywall distribution company. Mr. Head served as President of the Board of the Kansas City, Kansas Rotary Club, and was also elected to the Board of Directors of the Kansas City Kansas Area Chamber of Commerce. In addition, the Kansas Governor appointed him to the Kansas State Board of Accountancy where he served for six years, including two years as Chairman. Mr. Head received Bachelor of Science and Bachelor of Arts degrees in Accounting from Pittsburg State University, and also served four years in the U.S. Navy.



**Mark P. Jones**  
**Member at Large**  
**Elected 2003-2005**  
**Re-elected 2005-2009**

Mr. Jones is a native of Kansas City, Kansas, and graduated from Turner High School. He also attended F.L. Schlagle and Washington High Schools. Mr. Jones helped raise funds for the Athletic Department of the Kansas City Kansas Community College. He is a member of the American Public Power Association and the American Water Works Association. He manages an auto repair service business.

## GENERAL MANAGER'S MESSAGE

The Kansas City Board of Public Utilities (BPU) continued its mission of providing low-cost electric and water services to the community in a safe, reliable manner in 2006. BPU renewed its focus on customer service and continued to position itself to meet the future needs of its customers, employees and the community.

BPU addressed a number of on-going issues in 2006, including maintenance and replacement of aging infrastructure, development of new facilities and system requirements, adherence to existing regulatory and safety standards, renewed efforts to cut costs and improve efficiencies, and rate adjustments to meet future needs.

An important acknowledgment of the fiscal direction of BPU and the leadership of its board of directors and management is the review by the bond rating services. The utility maintained an A+ rating from both Fitch Ratings Service and Standard and Poor's Ratings Services. Ratings are based on several components, including BPU's historically solid financial performance, good management and a number of other factors. Clearly, based on these reports, BPU remains financially solvent and is prepared to grow for the future, providing quality utility services to our customers and the community.

BPU continued to address issues included in the 20-Year Electric System Master Plan, ensuring continued stability of electric utility services. Highlights for 2006 included:

- Completion of a Cooling Tower at the Nearman Creek Power Station. The new eight-cell cooling tower provides the necessary backup to recirculate cooling water and allows the system to be self-contained during low river levels (typically during the summer's peak demand period) or in case of an emergency.
- New generation. BPU's Electric Master Plan identified the need for additional baseload generation by 2012. In 2006 BPU took important steps toward this goal by contracting with Black & Veatch to confirm the need for new power and to perform in-depth studies on potential sites, technologies, plant size, other generating technologies, potential environmental impacts as well as economic and financial considerations.
- BPU energized the new Piper Substation in western Wyandotte County, and completed construction of the transmission line from the Maywood Substation to the Piper Substation. Development also continued on the electric infrastructure within Village West (the large new retail development), as well as infrastructure installed in new residential developments throughout our community.

As part of the utility's Integrated Resource Plan, BPU enhanced our demand-side management programs, including our electric heating incentive program, changes in standards for street lights/signal lamps, and higher-efficiency construction standards. In addition, negotiations toward signing a contract for wind energy took place in late 2006.

Following BPU's Water System Master Plan, the utility undertook significant efforts to improve its water utility infrastructure with projects that will meet the community's current and future water needs:

- Construction work continued on the new Cernech Pump Station, reservoir and transmission line. The 30-million-gallon-per-day pump station, six-million-gallon reservoir and 48-inch transmission line will improve reliability and security of the water system and will support growth in the central and western areas of the community.
- At the Nearman Water Treatment Plant, significant progress was made in the construction of an Actiflo® Basin. This new basin is compact, flexible and easy to operate. It will save time, make efficient use of chemicals and will accept extreme changes in raw water. The basin will improve reliability of our system while also serving as a back-up for the existing two basins.

Internally, BPU implemented a number of programs to streamline processes and improve efficiencies, while providing employees the resources necessary to meet our customers' needs. New training and career development programs have improved productivity as well as professional and personal development.

BPU's Comprehensive Strategic Plan was enhanced by incorporating the budget planning process into the Action Items for 2007. Core Strategies include two new areas: "Customer," focused on providing the very best service to our customers, and "Environment," focused on meeting and exceeding environmental regulation requirements, while at the same time demonstrating environmental leadership. These strategies are in addition to the existing core strategies of Employee, Safety, Productivity, Finance, Economic Development & Growth, and Electric and Water Operations.

We also continue to emphasize the Values outlined in our Strategic Plan: Innovation, Accountability, Responsible Communication, Appreciation, Integrity, Customer Focus and Respect.

In 2006 BPU continued efforts to improve customer service while renewing efforts to reduce expenses, improve efficiencies, and increase overall effectiveness. As one of the top-ranked public utilities in the country, we are committed to this endeavor for our customers and the community.



Don L. Gray  
General Manager  
April 30, 2007

## **Senior Management – 2006**

### **Don L. Gray General Manager**

Don L. Gray has worked at BPU for more than 36 Years. Before being appointed General Manager of the utility in 2006, he was Manager of Water Operations.

In the late 1990's he led the research, design and construction of the Nearman Water Treatment Plant with its state-of-the-art horizontal collector well, the largest alluvial well of its kind in the U.S. The plant opened in 2000. He has also served on various task forces and committees at the utility, including the Leadership Team for the BPU Strategic Plan.

In 2005, Mr. Gray was awarded the prestigious George Warren Fuller Award from the American Water Works Association (AWWA). The award recognizes Mr. Gray's long career and management of the BPU water utility and his leadership role in AWWA. He also serves on the Board of Directors of AWWA.

Mr. Gray also serves on the board of the Kansas City Kansas Chamber of Commerce and is Co-Chair of the Chamber's Economic Infrastructure Committee. He is also a member of the American Public Power Association and Kansas Municipal Utilities.

Eighteen years ago Mr. Gray turned his favorite recreational activity into a way to aid local children when he helped establish the BPU Charity Golf Tournament. Since then the tournament has raised nearly \$300,000 for various children's charities in Wyandotte County.

Mr. Gray has bachelor's degrees in chemistry and microbiology. In 2003 he earned his M.B.A. from the University of St. Mary, where he is currently on the faculty, and teaching graduate courses in Operations Management.

**Lori C. Austin, Manager  
Accounting and Finance/CFO**

**Marc D. Conklin, Manager  
Human Resources, General Counsel /  
Staff Attorney**

**Darrell D. Dorsey, Manager  
Electric Production & Supply**

**James A. Epp, Manager  
Water Operations**

**Paul M. Pausick, Manager  
Information Technology**

**Stephan F. Rehm, Manager  
Electric Operations**

**Carl A. Wolfe, Manager  
Customer Services**

**Executive Staff and Department Heads  
2006**

Susan J. Allen  
Public Affairs Officer

William F. Kamm, Director  
Production Supply Services

Robert D. Adam, Director  
Electric System Control

Forrest A. Martinek, Director  
Customer Services

Laurie D. Brough, Director  
Administrative Services

James A. Mason, Director  
Field Services

Patrick J. Cassidy, Director  
Environmental Services

Patrick J. Morrill, Director  
Electrical Engineering

John D. Frick, Director  
Electric Production Engineering

George A. Powell, Director  
Economic Development & Retail Sales

John M. Fuentez, Director  
Electric Production Operations

Dong T. Quach, Director  
Electric Production Maintenance

Stephen E. Green, Director  
Water Distribution

Kevin G. Williams, Director  
Employee Relations

William A. Johnson, Director  
Electric Transmission & Distribution

Nanette M. Wolf, Director  
Purchasing

Durward M. Johnson, Director  
Water Processing

Rick Yarnell, Director  
Internal Audit and Performance Assurance



## **FINANCE REPORT OVERVIEW**

The Kansas City Board of Public Utilities of Kansas City, Kansas (BPU) is an administrative agency of the Unified Government of Wyandotte County/Kansas City, Kansas charged by Kansas Statute with the responsibility for the daily management, operation, maintenance and control of the Unified Government of Wyandotte County/Kansas City, Kansas's electric and water facilities. By Kansas Statutes, the BPU's operational control and administration is under a six-member elected Board of Directors who appoints the General Manager to administer the day-to-day operations of the combined utility system. The Board of Directors serve four-year staggered terms, with three board members elected every two years. Three of the board members are elected by district and the remaining board members are elected at large. However, the Unified Government of Wyandotte County/Kansas City, Kansas possesses the corporate powers that would otherwise distinguish the BPU as being legally separate from the Unified Government of Wyandotte County/Kansas City, Kansas. The accompanying combined financial statements include only those operations related to the municipal electric and water utilities.

Responsibility for this report for the fiscal year ended December 31, 2006 with respect to both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the BPU. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the BPU. All disclosures necessary to enable the reader to gain an understanding of the BPU's financial activities have been included.

The BPU's financial statements have been audited by KPMG, LLP. The goal of the independent audit was to provide reasonable assurance that the financial statements of the BPU for the fiscal year ended December 31, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amount and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. KPMG concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the BPU's financial statements for the fiscal year ended December 31, 2006 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The BPU's MD&A can be found immediately following the report of the independent auditors.

The Employees' Retirement Pension Plan, established for the employees of the BPU, is a separate legal entity. The financial statements of the Employees' Retirement Pension Plan are not included in the accompanying combined financial statements, but can be obtained from the Board of Pension Trustees of the Retirement Pension Plan of the Kansas City Board of Public Utilities.

## **BPU Financial Controls and Performance**

### **Internal Controls**

Management of BPU is responsible for establishing and maintaining internal controls to ensure that the assets of BPU are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; (2) the evaluation of costs and benefits requires estimates and judgment by management.

### **Budgeting Controls**

BPU maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with provisions embodied in the annual appropriated budget approved by the elected Board, BPU's governing body. BPU is required to adopt an annual budget. The annual budget includes the fiscal year operating plan as well as a multi-year Capital Improvements Program. The level of budgetary control is established by cost centers and by resource expense line item activity. In certain cases, however, cost center budgets may be changed during the year under the following circumstances:

- Essential programs: If a program is essential for the operations of BPU or so urgently needed that implementation cannot be delayed.
- Required programs: If a program is needed to maintain BPU's activities at current levels of performance or required by the obligation to serve.

### **Financial Guidelines**

BPU maintains accountability of its financial performance through the use of financial responsibility statements guidelines as adopted by the Board. The following guidelines are to be used in the planning and development of the annual budget for the Kansas City Board of Public Utilities. These guidelines are developed according to the current financial policies; the current rate hearing stipulation agreements with our customer group; compliance with current bond indenture requirements; and in accordance with good and prudent financial planning and budget processes and recommended policies of the Government Finance Officers Association.

In addition to the financial responsibility statements in the current outstanding bond documents, BPU annually reviews its financial assumptions and guidelines to ensure conformance with statement indenture requirements and good business practices. The major financial guidelines include:

## **BPU Financial Controls and Performance – continued**

- ***Debt Service Coverage Ratios*** – BPU establishes a debt ratio that is consistent with the current provisions in the bond indenture document. This debt service ratio is a measure of the adequacy of cash to pay debt service and is the minimum amount necessary to prevent bond default. It should be considered a target for revenues needed by the Utility for its funding purposes in any given year.

BPU must maintain debt coverage of 1.2 to meet the coverage requirement imposed by the bond indenture and demonstrate that Net Revenues be at least 120 percent of the Maximum Annual Debt Service.

BPU also has a mandatory provision in its bond indentures for a debt service trigger when debt coverage is at 1.3 times or below the annual debt service payment amounts.

- ***Rate Stabilization Fund*** – The 2006 Financial Statements have assets, which are designated for a Rate Stabilization Fund. A Rate Stabilization Fund is needed to offset major changes in revenues and expenses including weather conditions and unanticipated spending requirements. As of December 31, 2006, the Rate Stabilization Fund had a balance of \$11.9 million.
- ***Improvement and Emergency Fund*** – BPU’s financial statements include a combined utility reserve of \$1.5 million to fund emergency related capital improvement costs. This reserve account allows BPU to fund capital improvements in cases of major replacement needs and/or emergency disasters.

### **Cash Management**

BPU has a comprehensive cash and investment management program. Various investment restrictions are contained in the indenture and ordinance authorizing the revenue bonds of the BPU utility system, along with statutory restrictions contained in state law. These restrictions basically identify the type of investments that may be authorized and do not restrict BPU to various terms. BPU prepares an annual cash flow worksheet, and a 90-day cash worksheet, all of which aids BPU in making the best investment decisions and has helped in short and long range planning. Through these procedures, BPU has been able to out-perform the 6-month T-bill rate.

### **Risk Management**

BPU has a comprehensive risk management program. This program includes coverage as provided for in the following policies: (1) Property/Boiler “All Risk,” (2) Comprehensive Crime (Employee Dishonesty), (3) Special Fuels or User Bond, (4) Umbrella Liability, (5) Excess Workers’ Compensation, (6) Public Official and Employee Liability, (7) Travel, and (8) Automobile Insurance. The risk management program is in compliance with the Trust Indenture of the outstanding bonds.

### **Long Term Financial Planning**

BPU's goals for the future include meeting the needs of the community as development continues within the county. A few of the major goals for 2007 include:

- Continue planning and development of second base load generating unit and develop communication strategies to educate and inform our community
- Complete the water transmission line from the Milan pump station to the western portion of the county to improve system reliability
- Complete wide-ranging cost of service study in order to meet requirements of Energy Policy Act of 2005 and support for improving generation system reliability
- Continue planning for construction of a 2MG elevated tank and 4MG ground storage to increase water system reliability
- Begin evaluation of an outage management system and an automated meter reading system to improve customer service and response time

### **GFOA Certificate of Achievement Award**

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Kansas City Board of Public Utilities for its comprehensive annual financial report for the year ended December 31, 2005. This was the twenty-fifth consecutive year that the BPU received this prestigious award.

In order to be awarded a Certificate of Achievement, BPU must publish an easily readable and efficiently organized annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements. We believe this 2006 comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements. We are therefore submitting it to the GFOA to determine its eligibility for a certificate for the twenty-sixth consecutive year.

In closing, I would like to thank the Accounting staff for their efforts in preparing and providing the financial information. Special thanks to Susan Allen, Public Affairs Officer, in coordinating the comments for the President's and General Manager's Messages.

Respectfully submitted,



Lori C. Austin  
Manager of Accounting & Finance/  
Chief Financial Officer  
April 30, 2007

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Kansas City Board of Public Utilities, Kansas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2005

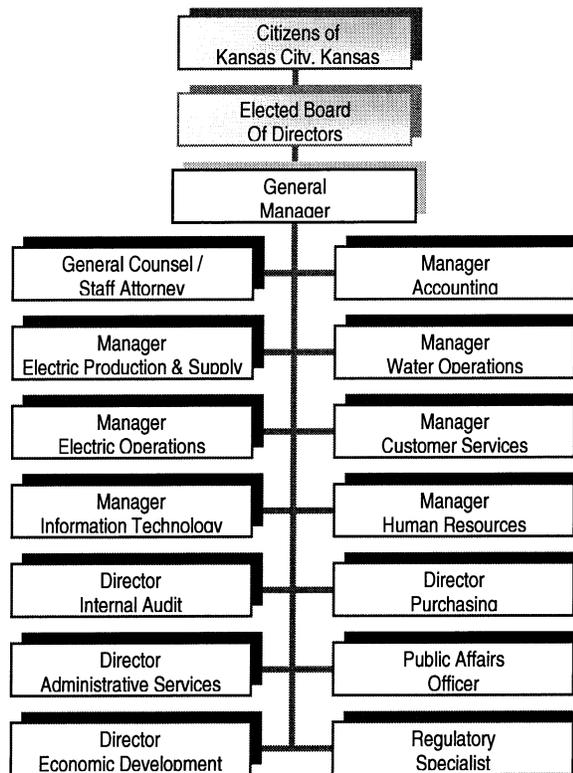
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

## Kansas City Board of Public Utilities 2006 Organizational Chart

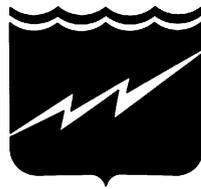


- Civil Engineering
- Construction / O & M
- Electric Metering & Services
- Electric Production Engineering
- Electric Production Maintenance
- Electric Production Operations
- Electric System Control
- Electric Transmission & Distribution
- Electrical Engineering
- Employee Relations
- Employment
- Environmental Services
- Grounds Maintenance
- Marketing Operations
- OH / UG Lines
- Planning
- Production Support Services
- Radio / Telecom & Cable
- Stores
- Street Lights
- Substations
- Traffic Signal
- Transportation
- Water Distribution
- Water Processing
- Water System Support



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**Financial Section**





**KPMG LLP**  
Suite 1000  
1000 Walnut Street  
Kansas City, MO 64106-2162

## **Independent Auditors' Report**

The Board of Directors  
Board of Public Utilities:

We have audited the accompanying balance sheets of the Board of Public Utilities of Kansas City, Kansas (the BPU) as of December 31, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the BPU's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the *Kansas Municipal Audit Guide* (the Guide); and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the BPU's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the BPU fund and do not purport to, and do not, present fairly the financial position of the Unified Government of Wyandotte County, Kansas City, Kansas as of December 31, 2006 and 2005, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board of Public Utilities of Kansas City, Kansas as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2007 on our consideration of the BPU's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The accompanying management's discussion and analysis on pages 19 through 25 and schedule of funding progress on page 56 are not a required part of the financial statements, but are supplementary information

required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional combining information on pages 58 to 60 is presented for the purpose of additional analysis and is not a required part of the financial statements. This additional combining information is the responsibility of the BPU's management. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

KPMG LLP

Kansas City, Missouri  
April 25, 2007

## **BOARD OF PUBLIC UTILITIES**

### Management's Discussion and Analysis

December 31, 2006 and 2005

#### **Over View of the Financial Statements**

This discussion and analysis is intended to serve as an introduction into the BPU's financial statements. The BPU's financial statements are comprised of two components: 1) financial statements and 2) notes to the financial statements. The last report contains other supplementary information in addition to the financial statements themselves.

#### ***Financial Statements***

The *financial statements* are designed to provide readers with a broad overview of the BPU's finances in a manner similar to private-sector business.

The *statement of net assets* presents information on all of the BPU's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases/decreases in net assets may serve as a useful indicator of whether the financial position of the BPU is improving/deteriorating.

The *statement of activities* presents information showing how the BPU's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the cash flows*. Thus, revenues and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

#### ***Notes to the Financial Statements***

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

#### ***Other Information***

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the BPU's budgetary compliance and progress in funding its obligation to provide pension benefits to its employees.

The combining statements for the BPU's electric and water utilities are presented immediately following the required supplemental information.

The Board of Public Utilities of Kansas City, Kansas (the BPU) is an administrative agency of the Unified Government of Wyandotte County/Kansas City, Kansas (Unified Government).

The electric and water departments are reflected as an enterprise fund on the Unified Government's financial statements consisting of the balance sheet; statement of revenues, expenses, and changes in net assets; and statement of cash flows. This management's discussion and analysis of the BPU's financial report presents our discussion and analysis of the BPU's financial performance for the years ended December 31, 2006, 2005 and 2004. This analysis should be read in conjunction with the financial statements and notes thereto.

**BOARD OF PUBLIC UTILITIES**

Management's Discussion and Analysis

December 31, 2006 and 2005

The following table summarizes the financial condition and operations of the BPU as of and for the three years ended December 31, 2006:

<b>Balance Sheet Summary</b>			
<b>Assets</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Capital assets, net	\$ 691,579,477	662,002,748	601,673,285
Current assets	87,952,907	90,301,767	96,436,841
Noncurrent assets	60,189,860	105,378,934	138,829,956
	<u>\$ 839,722,244</u>	<u>857,683,449</u>	<u>836,940,082</u>
<b>Liabilities and Net Assets</b>			
Long-term debt and capital lease obligations	\$ 363,076,438	375,997,490	385,204,487
Deferred credits	1,245,170	4,286,111	8,038,020
Current liabilities	91,668,584	107,771,662	69,216,232
Net assets:			
Invested in capital assets, net of related debt	339,543,081	337,391,438	306,351,883
Restricted	12,092,281	12,191,332	11,070,982
Unrestricted	32,096,690	20,045,416	57,058,478
	<u>\$ 839,722,244</u>	<u>857,683,449</u>	<u>836,940,082</u>

**BOARD OF PUBLIC UTILITIES**  
Management's Discussion and Analysis  
December 31, 2006 and 2005

**Statements of Revenues, Expenses, and Changes in Net Assets Summary**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues:			
Residential	\$ 71,900,832	61,506,345	56,004,311
Commercial	79,590,974	63,594,092	59,862,702
Industrial	55,822,224	44,366,530	39,962,991
Other	33,221,762	36,153,183	36,904,391
Payment-in-lieu of taxes	18,374,439	16,325,334	14,673,298
Total operating revenues	<u>258,910,231</u>	<u>221,945,484</u>	<u>207,407,693</u>
Operating expenses:			
Fuel	46,224,344	29,830,298	30,901,902
Purchased power	39,269,167	33,914,274	22,157,875
Production	33,505,494	28,631,121	32,208,610
Transmission and distribution	31,680,256	29,926,086	28,291,761
General and administrative	31,056,425	40,942,490	34,398,286
Depreciation and amortization	30,550,474	28,545,254	23,369,264
Purchased power costs amortization	—	—	6,275,808
Total operating expenses	<u>212,286,160</u>	<u>191,789,523</u>	<u>177,603,506</u>
Operating income	<u>46,624,071</u>	<u>30,155,961</u>	<u>29,804,187</u>
Nonoperating income (expense):			
Interest income	3,895,121	4,192,374	987,707
Interest expense	(19,597,976)	(19,916,733)	(16,753,980)
Loss on disposal of assets	—	(4,528,153)	—
Other	153,093	287,060	(46,048)
Total nonoperating expense, net	<u>(15,549,762)</u>	<u>(19,965,452)</u>	<u>(15,812,321)</u>
Contributions and transfers:			
Payment-in-lieu of taxes	(18,374,439)	(16,325,334)	(14,673,298)
Contributions from developers and others	1,403,996	1,281,668	275,314
Total contributions and transfers	<u>(16,970,443)</u>	<u>(15,043,666)</u>	<u>(14,397,984)</u>
Change in net assets	<u>\$ 14,103,866</u>	<u>(4,853,157)</u>	<u>(406,118)</u>
Total revenue	\$ 262,958,445	226,424,918	208,349,352
Total expense	\$ 231,884,136	216,234,409	194,357,486

**BOARD OF PUBLIC UTILITIES**  
Management's Discussion and Analysis  
December 31, 2006 and 2005

**Financial Highlights**

**2006 Compared to 2005**

- Net capital assets increased \$29.6 million in 2006, an increase of 4.4% over 2005.
- Debt service coverage ratio for 2006 increased to 2.33 times in comparison with 1.93 for the year ended 2005.
- Net assets increased by \$14.1 million during 2006.

In 2006, the BPU's operations performed above budget in overall revenues. The BPU's revenues from operations were approximately \$258.9 million, with the electric department recognizing revenues of \$222.0 million and the water department recognizing revenues of \$36.9 million. The average number of customer accounts did not change significantly from the prior year.

The BPU's total operating revenue increased over 2005 by approximately \$37.0 million. The increase in the electric department of \$35.3 million is attributable to increased volumes and an increase in the Energy Rate Component for fuel and purchased power of approximately one cent per kWh. Electric volumes increased 1.2% over 2005 due to the continued expansion of commercial growth within the Village West area. The water department's increase in operating revenue of \$1.7 million was due to the approved rate increase of 1.86% while usage was comparable to 2005. In comparison to the 2006 budgeted revenue, the BPU collected approximately 105% of the budgeted revenue.

Operating expenses for 2006 and 2005 were approximately \$212.3 million and \$191.8 million, respectively. The electric department represents \$186.5 million and \$164.7 million, respectively, while the water department has \$25.8 million and \$27.1 million, respectively, in operating expenses. The largest component of operating expenses is production, fuel, and purchased power expense. Overall, in 2006, production, fuel, and purchased power costs were higher than in the previous year by \$26.6 million, and also over the 2006 budget by \$564,000. In 2006, the additional costs were represented by the scheduled two-month outage of the Nearman Power Station (Nearman). The outage was extended an additional month due to damage found within the turbine. The purchased power expense associated with the outage was \$14.2 million. Fuel costs increased over 2005 due to increased production at the Quindaro Power Plant (Quindaro) and the use of combustion turbines during the outage and throughout the summer period. Production costs increased as a result of the maintenance performed during the Nearman outage. The BPU's power supply mix for fiscal years 2006 and 2005 was 41% and 47% coal, 50% and 48% net power purchases, 4% and 3% gas, and 5% and 2% oil, respectively.

For 2006, net assets increased by \$14.1 million over 2005 in comparison with a budgeted net increase of \$10.7 million.

**2005 Compared to 2004**

- Net capital assets increased \$60.3 million in 2005, an increase of 10.0% over 2004.
- Debt service coverage ratio for 2005 increased to 1.93 times in comparison with 1.79 for the year ended 2004.
- Net assets decreased by \$4.9 million during 2005.

## **BOARD OF PUBLIC UTILITIES**

### **Management's Discussion and Analysis**

December 31, 2006 and 2005

In 2005, the BPU's operations performed above budget in overall revenues. The BPU's revenues from operations were approximately \$221.9 million, with the electric department recognizing revenues of \$186.7 million and the water department recognizing revenues of \$35.2 million. The average number of customer accounts did not change significantly from the prior year.

The BPU's total operating revenue increased over 2004 by approximately \$14.5 million. This increase is attributable to increased volumes and an increase in the Energy Rate Component for fuel and purchased power of one cent per kWh. Electric volumes increased 1% over 2004 due to the continued expansion of usage into the Village West area and additional new housing developments within the western portion of BPU's service area, while water revenues had a slight decrease of less than one percent. In comparison to the 2005 budgeted revenue, the BPU collected approximately 102% of the budgeted revenue.

Operating expenses for 2005 and 2004 were approximately \$191.8 million and \$177.6 million, respectively. The electric department represents \$164.7 million and \$152.9 million, respectively, while the water department has \$27.1 million and \$24.7 million, respectively, in operating expenses. The largest component of operating expenses is production, fuel, and purchased power expense. Overall, in 2005, production, fuel, and purchased power costs were higher than in the previous year by \$7.1 million, and also over the 2005 budget by \$2.8 million. In 2005, there were additional costs for purchased power as the railway was unable to make scheduled coal deliveries beginning in the summer of 2005 and throughout the year. The inability to receive the required amount of coal resulted in a reduction in generation and an increased need to purchase power and use additional fuel sources of gas and oil for the combustion turbines. The BPU's power supply mix for fiscal years 2005 and 2004 was 47% and 55% coal, 48% and 42% net power purchases, 3% and 1% gas, and 2% and 2% oil, respectively.

During 2005, additional emergency capital repair expenses incurred in 2005 and 2004 were collected through the Rate Stabilization rider in the amount of \$4.4 million.

For 2005, net assets decreased by \$4.9 million over 2004 in comparison with a budgeted net increase of \$11.6 million.

### **Capital Assets and Debt Administration**

#### ***Capital Assets***

#### **2006 Compared to 2005**

Net capital assets increased \$29.6 million in 2006, an increase of 4.4% for the BPU. The significant components of the increase include work at both the Nearman and Quindaro power plants of approximately \$15.1 million in which \$10.1 million was for the Nearman overhaul, which included work on the turbine, boiler, and the replacement of the controls and \$1.6 million was for the completion of the combustion turbine at the Nearman power plant. Work at Quindaro includes the installation of a water pump system and stator replacement and inlet duct at CT 2 for \$3.4 million. Additional work included the construction of the transmission line from the Piper to Maywood substation totaling \$4.0 million as well as the development of subdivisions throughout the county in the amount of \$1.5 million. With the abandonment of Brushy Creek Coal Company (BCCC) and Liberty Coal Company (Liberty), a reduction of \$6.4 million in net capital assets was recorded. Work continued on the construction of the Cernech Pump station and ground storage as well as the construction of the transmission main to connect the pump station in the amount of \$8.8 million. Capital asset additions were offset by approximately \$29.0 million of depreciation expense.

**BOARD OF PUBLIC UTILITIES**  
Management's Discussion and Analysis  
December 31, 2006 and 2005

Refer to note 5 of the notes to financial statements for additional information.

**2005 Compared to 2004**

Net capital assets increased \$60.3 million in 2005, an increase of 10.0% for the BPU. The significant components of the increase include work at both the Nearman and Quindaro power plants of approximately \$56.0 million in which \$22.5 million to date was for construction of a combustion turbine at the Nearman power plant and \$18.8 million for construction of a cooling tower at Nearman as well as control upgrades and boiler tube replacements of \$5.6 million. Work at Quindaro includes a major overhaul with control upgrades and boiler tube replacements for \$4.1 million as well as a circulatory pump system and a burner replacement in the amount of \$1.5 million. Additional work continued with the construction of a substation for the western portion of the county totaling \$2.5 million. In addition, construction projects at the Nearman Water Treatment Plant consisted of a horizontal collector well for \$3.7 million, an 18 MG basin expansion for \$1.8 million and a raw water supply line for \$3.6 million. Other projects include the construction of a pump station and ground storage for \$3.4 million, and the implementation of web-based financial analytical tools as well as security and network development in the amount of \$4.0 million. Also included within 2005 was a write-off of obsolete computer and communication equipment of \$22 million. Capital asset additions were offset by approximately \$27.2 million of depreciation expense.

Refer to note 5 of the notes to financial statements for additional information.

***Debt Administration***

**2006 Compared to 2005**

Long-term debt and capital lease obligations as of December 31, 2006 and 2005 were \$363.1 million and \$376 million, respectively. A portion of the overall decrease of \$12.9 million is due to the abandonment of BCCC and Liberty in the amount of \$3.3 million.

The BPU uses the Kansas Department of Health and Environment (KDHE) state loan, which is to be used for development of infrastructure for the water division. As funds are expended, a request is made to the state for reimbursement back to the BPU. During 2006, the reimbursements have totaled \$5.2 million.

The BPU maintains a debt ratio that is consistent with the current provisions in the bond indenture document. This debt service ratio is a measure of the adequacy of cash to pay debt service and is the minimum amount necessary to prevent bond default. The BPU must maintain debt coverage of 1.2. The coverage requirement imposed by the bond indenture is that operating revenues be at least 120% of the maximum annual debt service. The BPU also has a mandatory provision in its bond indentures for a debt service trigger when debt coverage is 1.3 times or below the annual debt service payment amounts.

As of December 31, 2006 and 2005, the BPU had debt coverage of 2.33 times and 1.93 times, respectively.

The BPU's utility system bonds for both electric and water debt are rated A+ from Fitch Ratings, A+ from Standard and Poor's Rating Services, and A1 from Moody's Investors Service. The BPU's bond interest rates range from 3.0% to 6.9%. Interest on debt for 2006 and 2005 was \$19.6 million and \$19.9 million, respectively.

Refer to note 6 of the notes to financial statements for additional information.

## **BOARD OF PUBLIC UTILITIES**

### **Management's Discussion and Analysis**

**December 31, 2006 and 2005**

#### **2005 Compared to 2004**

Long-term debt and capital lease obligations as of December 31, 2005 and 2004 were \$376 million and \$385.2 million, respectively, a decrease of \$9.2 million.

The BPU also has been awarded from KDHE an additional state loan from KDHE for approximately \$7.1 million to be used for development of infrastructure for the water division. As funds are expended, a request is made to the state for reimbursement back to the BPU. During 2005, the reimbursements have totaled \$16.9 million.

The BPU maintains a debt ratio that is consistent with the current provisions in the bond indenture document. This debt service ratio is a measure of the adequacy of cash to pay debt service and is the minimum amount necessary to prevent bond default. The BPU must maintain debt coverage of 1.2. The coverage requirement imposed by the bond indenture is that operating revenues be at least 120% of the maximum annual debt service. The BPU also has a mandatory provision in its bond indentures for a debt service trigger when debt coverage is 1.3 times or below the annual debt service payment amounts.

As of December 31, 2005 and 2004, the BPU had debt coverage of 1.93 times and 1.79 times, respectively.

The BPU's utility system bonds for both electric and water debt are rated A+ from Fitch Ratings, A+ from Standard and Poor's Rating Services, and A1 from Moody's Investors Service. The BPU's bond interest rates range from 3.0% to 6.9%. Interest on debt for 2005 and 2004 was \$19.9 million and \$16.8 million, respectively.

Refer to note 6 of the notes to financial statements for additional information.

**BOARD OF PUBLIC UTILITIES**

Balance Sheets

December 31, 2006 and 2005

<b>Assets</b>	<u><b>2006</b></u>	<u><b>2005</b></u>
Noncurrent assets:		
Capital assets:		
Property, plant, and equipment	\$ 1,140,209,858	1,050,150,657
Less accumulated depreciation	<u>(519,886,777)</u>	<u>(505,285,481)</u>
Plant in service, net	620,323,081	544,865,176
Construction work in progress	<u>71,256,396</u>	<u>117,137,572</u>
Capital assets, net	<u>691,579,477</u>	<u>662,002,748</u>
Restricted assets:		
Cash and cash equivalents	33,243,763	21,134,700
Investments	<u>7,165,837</u>	<u>60,292,433</u>
Total restricted assets	40,409,600	81,427,133
Prepaid pension	6,477,747	4,077,350
Debt issue costs	5,417,623	5,719,855
System development costs	2,483,764	1,662,562
Regulatory assets	<u>5,401,126</u>	<u>12,492,034</u>
Total noncurrent assets	<u>751,769,337</u>	<u>767,381,682</u>
Current assets:		
Cash and cash equivalents	5,998,695	6,356,509
Investments	17,667,399	20,254,572
Accounts receivable – customers and other	22,722,296	28,942,845
Accounts receivable – unbilled	9,318,059	8,586,773
Allowance for doubtful accounts	(1,324,151)	(2,419,039)
Inventories	31,645,590	25,676,282
Prepayments and other current assets	<u>1,925,019</u>	<u>2,903,825</u>
Total current assets	<u>87,952,907</u>	<u>90,301,767</u>
Total assets	<u><u>\$ 839,722,244</u></u>	<u><u>857,683,449</u></u>

**BOARD OF PUBLIC UTILITIES**

Balance Sheets

December 31, 2006 and 2005

<b>Liabilities and Net Assets</b>	<u><b>2006</b></u>	<u><b>2005</b></u>
Net assets:		
Invested in capital assets, net of related debt	\$ 339,543,081	337,391,438
Restricted – debt service	12,092,281	12,191,332
Unrestricted	<u>32,096,690</u>	<u>20,045,416</u>
Total net assets	383,732,052	369,628,186
Liabilities:		
Noncurrent liabilities:		
Long-term debt – revenue bonds:		
Principal	324,102,885	334,704,197
Accreted interest	17,669,714	20,492,934
Government loans	19,666,793	15,930,490
Capital lease obligations	<u>1,637,046</u>	<u>4,869,869</u>
Total long-term debt and capital lease obligations	363,076,438	375,997,490
Regulatory liabilities	1,245,170	4,286,111
Postretirement benefit	<u>24,925,485</u>	<u>22,655,054</u>
Total noncurrent liabilities	389,247,093	402,938,655
Current liabilities:		
Current maturities of revenue bonds	10,952,986	10,825,592
Current maturities of government loans	804,415	1,145,592
Current maturities of capital lease obligations	1,704,964	3,095,489
Accrued interest	5,488,108	5,607,975
Customer deposits	3,219,427	2,894,829
Accounts payable	25,833,948	39,699,538
Payroll and payroll taxes	8,249,649	8,165,467
Accrued claims payable	6,090,733	10,037,332
Other accrued liabilities	3,255,186	2,418,696
Payment-in-lieu of taxes	<u>1,143,683</u>	<u>1,226,098</u>
Total current liabilities	<u>66,743,099</u>	<u>85,116,608</u>
Total liabilities	<u>455,990,192</u>	<u>488,055,263</u>
Total liabilities and net assets	<u>\$ 839,722,244</u>	<u>857,683,449</u>

See accompanying notes to financial statements.

**BOARD OF PUBLIC UTILITIES**

Statements of Revenues, Expenses,  
and Changes in Net Assets

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Residential	\$ 71,900,832	61,506,345
Commercial	79,590,974	63,594,092
Industrial	55,822,224	44,366,530
Other	33,221,762	36,153,183
Payment-in-lieu of taxes	18,374,439	16,325,334
Total operating revenues	<u>258,910,231</u>	<u>221,945,484</u>
Operating expenses:		
Fuel	46,224,344	29,830,298
Purchased power	39,269,167	33,914,274
Production	33,505,494	28,631,121
Transmission and distribution	31,680,256	29,926,086
General and administrative	31,056,425	40,942,490
Depreciation and amortization	30,550,474	28,545,254
Total operating expenses	<u>212,286,160</u>	<u>191,789,523</u>
Operating income	<u>46,624,071</u>	<u>30,155,961</u>
Nonoperating income (expense):		
Interest income	3,895,121	4,192,374
Interest expense	(19,597,976)	(19,916,733)
Loss on disposal of assets	—	(4,528,153)
Other	153,093	287,060
Total nonoperating expense, net	<u>(15,549,762)</u>	<u>(19,965,452)</u>
Income before contributions and transfers	31,074,309	10,190,509
Contributions and transfers:		
Payment-in-lieu of taxes	(18,374,439)	(16,325,334)
Contributions from developers and others	1,403,996	1,281,668
Change in net assets	14,103,866	(4,853,157)
Net assets, beginning of year	<u>369,628,186</u>	<u>374,481,343</u>
Net assets, end of year	<u>\$ 383,732,052</u>	<u>369,628,186</u>

See accompanying notes to financial statements.

**BOARD OF PUBLIC UTILITIES**

Statements of Cash Flows

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers	\$ 293,314,014	260,580,374
Payments to suppliers	(173,974,410)	(122,798,597)
Payments to employees	(51,652,341)	(49,501,216)
Net cash provided by operating activities	<u>67,687,263</u>	<u>88,280,561</u>
Cash flows from noncapital financing activities – payment-in-lieu of taxes	(18,374,439)	(16,325,334)
Cash flows from capital and related financing activities:		
Purchases of property, plant, and equipment	(63,827,093)	(90,770,101)
Abandonment of BCCC & LCC	(465,877)	—
Payments on capital leases	(2,448,521)	(2,261,822)
System development costs	(1,934,155)	(1,064,549)
Payments on revenue bonds	(10,958,631)	(11,487,917)
Proceeds from government loans	5,215,865	7,151,995
Payments on government loans	(695,706)	(1,373,481)
Interest paid on utility system debt	(22,541,063)	(21,398,573)
Net cash used in capital and related financing activities	<u>(97,655,181)</u>	<u>(121,204,448)</u>
Cash flows from investing activities:		
Purchases of investments	(349,041,578)	(21,606,278)
Proceeds from sales and maturities of investments	404,755,349	87,782,108
Interest received	4,379,835	4,576,709
Net cash provided by investing activities	<u>60,093,606</u>	<u>70,752,539</u>
Net increase in cash and cash equivalents	11,751,249	21,503,318
Cash and cash equivalents, beginning of year	<u>27,491,209</u>	<u>5,987,891</u>
Cash and cash equivalents, end of year	<u>\$ 39,242,458</u>	<u>27,491,209</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 46,624,071	30,155,961
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	30,550,474	28,545,254
Changes in noncash assets and noncash liabilities:		
Accounts receivable – customers and other	1,452,335	(1,602,445)
Inventories	(6,056,056)	(1,034,218)
Prepayments and other current assets	662,131	536,629
Customer deposits	324,598	498,653
Accounts payable	(10,955,320)	26,632,253
Payroll and payroll taxes payable	84,182	436,708
Accrued claims payable	5,096,970	(170,800)
Other accrued liabilities	1,137,941	83,925
Payment-in-lieu of taxes	(82,415)	32,717
Other, net	(1,151,648)	4,165,924
Net cash provided by operating activities	<u>\$ 67,687,263</u>	<u>88,280,561</u>
Supplemental noncash disclosures:		
Contributions of capital assets from developers	\$ 1,403,996	1,281,668

See accompanying notes to financial statements.

## BOARD OF PUBLIC UTILITIES

Notes to Financial Statements

December 31, 2006 and 2005

### (1) Summary of Significant Accounting Policies

#### (a) Description of Business

The Board of Public Utilities of Kansas City, Kansas (the BPU) consists of the municipal electric and water utility, which provide services to approximately 65,000 electric and 51,000 water customers.

Under Charter Ordinance of the Unified Government of Wyandotte County, Kansas City, Kansas (the Unified Government), pursuant to the Unified Government's constitutional home rule, the BPU is an administrative agency of the Unified Government and, as such, is a part of the Unified Government's primary government. However, the BPU's operational and administrative control is under a six-member elected board of directors (the Board). The accompanying financial statements represent the combination of only those operations related to the Unified Government's electric and water utility.

#### (b) Basis of Accounting

The BPU accounts for the water and electric utility as an enterprise fund. Significant interdepartmental accounts, including interdepartmental sales, have been eliminated. BPU uses the accrual basis of accounting under which revenues are recognized when earned and expenses are recorded when liabilities are incurred. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed to the extent that those standards do not conflict with, or contradict guidance of, the Governmental Accounting Standards Board (GASB). The BPU also has the option of following subsequent private-sector guidance, subject to this same limitation. In accordance with U.S. generally accepted accounting principles for rate regulated enterprises, certain costs or credits may be recorded as deferred charges or credits when it is probable that future rates established by the Board permit recovery of specific costs or require these credits to be returned to ratepayers. The BPU follows the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission and Statement of Financial Accounting Standards (SFAS) Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*.

Revenues and expenses are classified as either operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with ongoing operations. Operating revenue includes activities that have characteristics of exchange transactions, including charges for services. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as grants, subsidies, and investment income. Operating expenses include the cost of service, payroll, administrative expenses, contractual services, and depreciation. All expenses not meeting the above criteria are classified as nonoperating.

#### (c) Estimates and Assumptions

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Revisions for these estimates are reflected in future period financial statements.

## BOARD OF PUBLIC UTILITIES

Notes to Financial Statements

December 31, 2006 and 2005

### **(d) Revenue Recognition**

Operating revenues are recognized when electric and water services are delivered to customers. Payments-in-lieu of taxes represent amounts collected for and remitted to the Unified Government through a supplemental rate rider.

Meters are read and bills are rendered on a cycle basis. Unbilled revenue represents services delivered to customers and not billed at the end of a period. Management accrues estimated delivered amounts each period.

As required by GASB Statement No. 34, *Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, operating revenues reported in the statements of revenues, expenses, and changes in net assets are shown net of discounts and estimated allowances for doubtful accounts.

### **(e) Cash and Cash Equivalents**

Cash and cash equivalents include all highly liquid investments (including restricted assets) with an original maturity of three months or less.

### **(f) Capital Assets**

Capital assets are stated at actual purchased cost or cost of construction. These costs include payroll-related costs, including pensions and other fringe benefits. When capital assets are disposed, the net book value of assets retired plus the cost of removal, less salvage, is charged against accumulated depreciation with no gain or loss recognized. Repairs and maintenance are charged to maintenance expense. Contributions from developers and others are stated at fair market value at the date donated. The capitalization threshold for capital assets is \$5,000.

### **(g) Depreciation**

The BPU depreciates plant and equipment on a composite basis over their estimated useful lives on a straight-line basis. The BPU performed an analysis on depreciation expense to evaluate average service lives. Beginning in 2005, BPU applied the suggested changes to the asset classes. The following composite depreciation rates were used for 2006 and 2005:

	<u>Composite rates</u>	<u>Useful lives</u>
Production plant	1.67 – 4.00%	25 – 75 years
Transmission and distribution	1.67 – 6.67	15 – 75
General plant	2.27 – 10.00	10 – 44

### **(h) Interest Capitalization**

Interest costs incurred to finance construction work in progress are capitalized.

## BOARD OF PUBLIC UTILITIES

Notes to Financial Statements

December 31, 2006 and 2005

**(i) Accounts Receivable**

An estimate is made for the provision for uncollectible accounts based on an analysis of the aged accounts receivable and historical write-offs, net of recoveries. Additional amounts may be included based upon management's evaluation of customer credit risks. Allowances totaled \$1,324,151 and \$2,419,039 in fiscal years 2006 and 2005, respectively.

**(j) Inventories**

Inventories are stated at the lower of average cost or market (net realizable value) and consist of the following:

	<u>2006</u>	<u>2005</u>
Fuel	\$ 10,347,169	5,062,757
Material and supplies	21,298,421	20,613,525
Total	<u>\$ 31,645,590</u>	<u>25,676,282</u>

**(k) Investments**

Investments consist of deposits, repurchase agreements, certificates of deposit, money market funds, and U.S. Treasury securities, which are recorded at fair value as determined by market prices. Maturities of securities less than one year are classified as current, while maturities greater than one year are classified as noncurrent.

**(l) Brushy Creek Coal Company and Liberty Coal Company**

The BPU holds an indirect 50% interest in Brushy Creek Coal Company (BCCC) and a 50% interest in Liberty Coal Company (Liberty). The other 50% interest is indirectly owned by the City of Sikeston, Missouri (Sikeston). BCCC was the owner and operator of the coal mine-related equipment located in Illinois. BPU has had an interest in BCCC since 1979. BCCC discontinued mining operations in 1997. Upon cessation of operations at BCCC, the BPU became contractually responsible for 50% of asset retirement obligations related to the mine and for 50% of certain post-retirement benefits to mine workers. At December 31, 2006 and 2005, the BPU has recorded an estimated liability of \$4.6 million and \$9.0 million, respectively, for its estimated remaining share of these obligations. Both the regulatory asset and accrued liability were reduced by approximately \$0.7 million and \$4.4 million, respectively, in 2006 based upon revisions to estimates for the BPU's remaining obligations. Funding provided in both 2006 and 2005 for these obligations was \$1.8 million. The BPU expects to fund an additional \$1.8 million in 2007.

The amounts recorded for the BPU's portion of the asset retirement obligation and the miners' benefits require significant judgment and involve a number of estimates. The BPU has recorded its estimated obligations for each of these items using information currently available to management. These estimates could change significantly over time.

BCCC did not have material operations during the years ended December 31, 2006 and 2005.

## BOARD OF PUBLIC UTILITIES

Notes to Financial Statements

December 31, 2006 and 2005

Liberty, a Colorado limited liability company, was formed in 2002 for the purpose of opening a new mine. Western Fuels Illinois (WFI), through its ownership of BCCC, owns the land and coal at the mine and has assigned these interests, along with related equipment through a lease agreement, to Liberty. On July 13, 2006, Liberty indefinitely suspended operations of the BCCC. Liberty filed for bankruptcy protection on November 29, 2006 under Chapter 7 of the bankruptcy code. The bankruptcy plan contemplates a liquidation of assets. The bankruptcy trustee is currently evaluating various strategic options which include, but are not limited to, pursuing potential buyers for Liberty. There can be no assurances that such a buyer will be identified or a sales transaction will be completed.

Based upon information currently available to the BPU, management estimates that claims from Liberty's creditors will exceed its assets. BPU, after consultation with outside legal counsel, believes that in the event the liquidation of Liberty's assets does not provide sufficient funds to satisfy Liberty's outstanding obligations, the unpaid creditors have no recourse to seek amounts from the BPU. The BPU is not aware of any Liberty creditors asserting the BPU should be liable for any of Liberty's unsatisfied obligations. If any assertions would be made seeking amounts from the BPU to satisfy Liberty claims, the BPU would vigorously oppose any such effort. The BPU will monitor the bankruptcy proceedings, which are in progress.

As of December 31, 2006, the BPU has abandoned its interests in BCCC and Liberty as this term is defined for accounting purposes. In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and FASB Statement No. 144, *Accounting for the Impairment and Disposal of Long-Lived Assets*, BPU has written off its interests in BCCC and Liberty and recorded a liability for its portion of BCCC obligations that are expected to require funding by the BPU. Total costs based upon an engineering study are approximately \$4.9 million and BPU has recorded its 50% share of this estimate. If this estimate changes, BPU will attempt to recover additional amounts owed from its customers. If any amounts are not probable of recovery, they would be charged to operations in the period the estimated change becomes known. The BPU expects to fund this obligation as the work is performed. At this date, the timing of the work is not known and this effort could take several years to complete.

The estimated remaining liability is approximately \$4.4 million, and the BPU has recorded its 50% share of this estimate. On December 7, 2004, a lawsuit was filed in the U.S. District Court for the Southern District of Illinois against BCCC alleging BCCC breached its collective bargaining agreement with the United Mineworkers of America (UMWA) and violated provisions of Employee Retirement Income Security Act of 1974, as amended (ERISA) by unilaterally imposing benefit cuts to retired BCCC employees and refusing to provide benefits for other retired employees. BCCC prevailed in the lawsuit; however, the UMWA has filed an appeal. An unfavorable outcome to the appeal could result in an additional liability estimated to approximate \$24.4 million, of which the BPU would be obligated to provide funding for its proportionate share of 50%. The BPU has not recorded a liability related to this contingency.

## BOARD OF PUBLIC UTILITIES

### Notes to Financial Statements

December 31, 2006 and 2005

At December 31, 2006, the assets and liabilities have been eliminated from the BPU's accounts. At December 31, 2005, the balance sheet includes the 50% interests in BCCC and Liberty as follows:

<b>Assets</b>	<b>2005</b>
Property, plant, and equipment	\$ 15,794,480
Accumulated depreciation	(9,400,159)
Cash and cash equivalents	465,877
Accounts receivable – customer and other	2,942,037
Inventories	86,748
Prepayments and other current assets	316,675
Miner OPEB and mine reclamation costs	5,349,491
<b>Liabilities</b>	
Government loans	603,677
Capital lease obligations	1,579,397
Deferred credits	9,043,567
Current maturities of government loans	521,356
Current maturities of capital lease obligations	595,430
Accounts payable	2,910,269
Other accrued liabilities	301,453

#### ***(m) Deferred Charges and Amortization***

Costs incurred in the development of computer systems are deferred and amortized over the useful lives of the systems, which are estimated to be three to five years. Debt issuance costs are amortized on a straight-line basis over the lives of the related bonds.

As discussed in note 1(b), the BPU follows SFAS Statement No. 71. Regulatory assets and liabilities are amortized over a set period of time corresponding to the time period permitted and authorized by the Board.

As discussed in note 1(l), the BPU's 50% interest in the future unfunded obligations for retiree medical and mine reclamation costs related to the BCCC mine is included in Accrued Claims Payable in the accompanying balance sheets. These costs have been built into a rate study and are being amortized over 10 years.

## BOARD OF PUBLIC UTILITIES

Notes to Financial Statements

December 31, 2006 and 2005

### **(n) Vacation and Sick Leave**

Under the terms of the BPU's personnel policy, employees are granted vacation and sick leave. In the event of termination, an employee is paid for accumulated vacation days. Employees may carry over, from year to year, a maximum of 80 hours of vacation hours earned after 1997. The liability for accumulated vacation of \$1,175,110 and \$1,227,240 at December 31, 2006 and 2005, respectively, is included in payroll and payroll taxes in the accompanying balance sheets. Sick leave can be accrued up to 1,760 hours. Employees who resign with at least 15 years of service are paid for 75% of accumulated sick leave. All employees are paid for accumulated sick leave upon retirement or death. The liability for accrued sick leave of \$5,949,780 and \$5,887,367 at December 31, 2006 and 2005, respectively, is included in payroll and payroll taxes in the accompanying balance sheets.

### **(o) Net Assets**

In the financial statements, equity is displayed in three components as follows:

- Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is generally the BPU's policy to use restricted resources first, then unrestricted resources as they are needed.
- Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

### **(p) Reclassifications**

Certain prior year amounts in the financial statements have been reclassified where necessary to conform to the 2006 presentation.

## **(2) New Accounting Pronouncements**

In July 2004, the GASB issued its GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. GASB No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The approach followed in this Statement generally is consistent with the approach adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with modifications to reflect differences between pension benefits and OPEB. This Statement is effective for financial statements of the BPU for periods beginning after December 15, 2006. The BPU adopted GASB No. 45 on January 1, 2007 and the impact was not material.

In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34*. The purpose of this standard is to assist entities in determining

## BOARD OF PUBLIC UTILITIES

### Notes to Financial Statements

December 31, 2006 and 2005

when net assets have been restricted to a particular use by the passage of enabling legislation and to specify how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. GASB No. 46 is effective for financial statement periods beginning after June 15, 2005. The BPU adopted GASB No. 46 on January 1, 2006 and the impact was not material.

In June 2005, the GASB issued Statement No. 47, *Accounting Treatment for Termination Benefits*. This standard established recognition, measurement, and disclosure requirements for voluntary and involuntary termination benefits. The requirements of this Statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of GASB No. 45. For all other termination benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005. The BPU adopted GASB No. 47 on January 1, 2006 and the impact was not material.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and clean-ups. GASB Statement No. 49 is effective for financial statements of the BPU for periods beginning after December 15, 2007. The BPU is evaluating this new standard and has not yet determined its impact.

### (3) Cash and Investments

Kansas State Statutes authorize the BPU, with certain restrictions, to invest in open accounts, time deposits, certificates of deposit, and U.S. Treasury notes. All deposits with banks are collateralized at 102% of market value, as required by the BPU's Cash and Investment Policy and State Statute, less insured amounts.

The following represents the BPU's total cash and investments at December 31, 2006, and 2005:

	<u>2006</u>	<u>2005</u>
Cash and CDs	\$ 431,201	1,193,325
U.S. Treasury	19,167,339	20,736,399
Repurchase agreements	10,217,085	10,506,482
U.S. Agency	34,071,641	69,836,705
Mutual funds	188,428	5,765,303
Total cash and investments	<u>\$ 64,075,694</u>	<u>108,038,214</u>

**BOARD OF PUBLIC UTILITIES**

Notes to Financial Statements

December 31, 2006 and 2005

Cash and investments are included in the following balance sheet accounts at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents	\$ 5,998,695	6,356,509
Investments	17,667,399	20,254,572
Noncurrent assets:		
Cash and cash equivalents	33,243,763	21,134,700
Investments	<u>7,165,837</u>	<u>60,292,433</u>
	<u>\$ 64,075,694</u>	<u>108,038,214</u>

**(a) Deposits and Investments**

The BPU maintains a cash and investment program to pay for operating and capital requirements as well as for debt service requirements. The investment program consists of deposits, repurchase agreements, certificates of deposit, and U.S. Treasury securities. Other investments using U.S. agency and money market fund securities for the debt service program are managed by the bond trustee. Nearly all maturities of securities were less than one year. At December 31, 2006 and 2005, the bank balance and certificates of deposit were \$431,201 and \$1,193,325, respectively, which were covered by federal depository insurance or collateral held in safekeeping in the BPU's name.

The fair values, as determined by market prices, of the BPU's investments at December 31, 2006 are as follows:

<u>Investment type</u>	<u>Fair value</u>	<u>Investment maturities</u>		
		<u>Less than 6 months</u>	<u>6 – 12 months</u>	<u>Greater than 12 months</u>
Cash and CDs	\$ 431,201	431,201	—	—
U.S. Treasury	19,167,339	19,167,339	—	—
Repurchase agreements	10,217,085	8,786,981	—	1,430,104
U.S. Agency	34,071,641	29,095,427	4,976,214	—
Mutual funds	<u>188,428</u>	<u>188,428</u>	<u>—</u>	<u>—</u>
Total	<u>\$ 64,075,694</u>	<u>57,669,376</u>	<u>4,976,214</u>	<u>1,430,104</u>

## BOARD OF PUBLIC UTILITIES

Notes to Financial Statements

December 31, 2006 and 2005

The fair values, as determined by market prices, of the BPU's investments at December 31, 2005 are as follows:

Investment type	Fair value	Investment maturities		
		Less than 6 months	6 – 12 months	Greater than 12 months
Cash and CDs	\$ 1,193,325	1,193,325	—	—
U.S. Treasury	20,736,399	20,736,399	—	—
Repurchase agreements	10,506,482	9,076,193	—	1,430,289
U.S. Agency	69,836,705	66,121,392	3,715,313	—
Mutual funds	5,765,303	5,765,303	—	—
Total	\$ 108,038,214	102,892,612	3,715,313	1,430,289

### Investment Policy

The BPU has an investment policy that regulates investments in securities that have objectives of safety of principal, liquidity with all investments in U.S. dollars, and investment returns optimized within the constraints of safety and liquidity. Eligible securities are specific to Kansas State Statutes and the BPU's bond indenture agreements. All securities owned by the BPU are in conformance with the investment policy.

### Credit Risk

Credit risk is the risk that an entity will not be able to honor its commitments in the event of liquidation. The BPU manages credit risk by requiring all investments, including the use of any external investment pools and money market mutual funds, be AAA rated or better by nationally recognized rating agencies. All securities held by the BPU meet the credit quality objective.

### Custody Risk

Custody risk is the risk that, in the event of the failure of the counterparty to a transaction, an entity will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The BPU believes it has no custodial risk. All securities are registered in the name of the BPU and held by a third-party safekeeping agent. Investments in money market mutual funds and the State of Kansas Municipal Investment Pool are not exposed to custodial risk because their existence is not evidenced by securities that exist in physical or book entry form.

**BOARD OF PUBLIC UTILITIES**

Notes to Financial Statements

December 31, 2006 and 2005

**Concentration of Credit Risk**

The BPU has a concentration of credit risk where it holds more than 5% of its investment portfolio in any one security issuer other than U.S. Treasury securities and in investment pools. The following U.S. agency securities held in safekeeping by the BPU's bond trustee are in excess of 5% of total investments:

<u>Issuer</u>	<u>Rating</u>	<u>Amount</u>	<u>% of total portfolio</u>
Federal Home Loan Bank	AAA	21,431,573	33.20%
Federal National Mortgage Association	AAA	9,874,806	15.30

**Interest Rate Risk**

Interest rate risk is the risk that the fair value of the BPU's investments will decrease as a result of the increase in interest rates. The BPU investment policy requires the minimization of the risk of market value change. This is accomplished by structuring the investment portfolio so that fixed-income securities mature to meet cash requirements for debt service and other disbursement requirements for ongoing operations and by keeping maturities short. The only investment securities maturing beyond one year relate to securities required by the BPU's office building lease, and this is a fixed rate nonmarketable repurchase agreement.

**Foreign Currency Risk**

Foreign currency risk is the risk that fluctuations in exchange rates can lead to a loss in value of assets denominated in foreign currencies. The BPU investment policy does not allow for foreign currency denominated investments and, as a result, the BPU has no investments exposed to foreign currency risk. All investments are in U.S. dollars.

**(b) Designated Assets**

Certain cash and investment amounts have been designated by Board policy for specific purposes as follows:

	<u>2006</u>	<u>2005</u>
Economic development fund	\$ 252,200	—
Capital debt reduction	3,540,000	5,900,000
Reserve for liability insurance	2,100,000	2,100,000
Rate stabilization fund	11,906,273	11,906,273
Total	\$ <u>17,798,473</u>	19,906,273

**BOARD OF PUBLIC UTILITIES**

Notes to Financial Statements

December 31, 2006 and 2005

**(4) Restricted Assets**

Restricted assets were held in the following funds at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Debt service fund	\$ 16,080,390	16,299,306
Construction fund	19,609,783	60,732,997
Customer deposits	3,219,427	2,894,830
Improvement and emergency fund	<u>1,500,000</u>	<u>1,500,000</u>
Total restricted assets	<u>\$ 40,409,600</u>	<u>81,427,133</u>

The BPU is permitted to invest restricted funds in specified types of investments in accordance with its investment policy until the time such funds are required to be disbursed for their designated purposes.

**BOARD OF PUBLIC UTILITIES**

Notes to Financial Statements

December 31, 2006 and 2005

**(5) Capital Assets**

Capital asset activity for the year ended December 31, 2006 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers/ adjustments</u>	<u>Ending balance</u>
Electric:					
Production plant	\$ 455,751,738	81,813,621	(15,965,083)	(8,639,118)	512,961,158
Transmission and distribution	242,969,751	11,473,607	(559,125)	143,447	254,027,680
General plant	111,817,373	6,253,314	(210,913)	(4,696,666)	113,163,108
Total electric	<u>810,538,862</u>	<u>99,540,542</u>	<u>(16,735,121)</u>	<u>(13,192,337)</u>	<u>880,151,946</u>
Water:					
Production plant	94,950,390	32,941,783	—	(14,493,035)	113,399,138
Transmission and distribution	104,932,331	6,554,449	(1,568,900)	(6,523)	109,911,357
General plant	39,729,074	1,802,782	(20,830)	(4,763,610)	36,747,416
Total water	<u>239,611,795</u>	<u>41,299,014</u>	<u>(1,589,730)</u>	<u>(19,263,168)</u>	<u>260,057,911</u>
Property, plant, and equipment	1,050,150,657	140,839,556	(18,324,851)	(32,455,505)	1,140,209,857
Construction work in progress – not depreciable	117,137,572	65,082,720	—	(110,963,895)	71,256,397
Total capital assets	<u>1,167,288,229</u>	<u>205,922,276</u>	<u>(18,324,851)</u>	<u>(143,419,400)</u>	<u>1,211,466,254</u>
Less accumulated depreciation:					
Electric:					
Production plant	252,473,310	11,987,787	(1,649,184)	(2,825,465)	259,986,448
Transmission and distribution	136,348,059	8,077,341	(417,316)	—	144,008,084
General plant	44,672,313	4,056,295	(7,968,495)	77,022	40,837,135
Total electric	<u>433,493,682</u>	<u>24,121,423</u>	<u>(10,034,995)</u>	<u>(2,748,443)</u>	<u>444,831,667</u>
Water:					
Production plant	26,125,340	2,086,222	—	—	28,211,562
Transmission and distribution	26,125,635	1,826,609	(1,568,900)	—	26,383,344
General plant	19,540,824	940,210	(20,830)	—	20,460,204
Total water	<u>71,791,799</u>	<u>4,853,041</u>	<u>(1,589,730)</u>	<u>—</u>	<u>75,055,110</u>
Combined total	<u>505,285,481</u>	<u>28,974,464</u>	<u>(11,624,725)</u>	<u>(2,748,443)</u>	<u>519,886,777</u>
Capital assets, net	\$ <u>662,002,748</u>	<u>176,947,812</u>	<u>(6,700,126)</u>	<u>(140,670,957)</u>	<u>691,579,477</u>

## BOARD OF PUBLIC UTILITIES

### Notes to Financial Statements

December 31, 2006 and 2005

Capital asset activity for the year ended December 31, 2005 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers/ adjustments</u>	<u>Ending balance</u>
Electric:					
Production plant	\$ 454,895,205	850,651	—	5,882	455,751,738
Transmission and distribution	242,304,071	848,649	(152,607)	(30,362)	242,969,751
General plant	123,774,476	4,984,558	(16,930,901)	(10,760)	111,817,373
Total electric	<u>820,973,752</u>	<u>6,683,858</u>	<u>(17,083,508)</u>	<u>(35,240)</u>	<u>810,538,862</u>
Water:					
Production plant	94,950,390	—	—	—	94,950,390
Transmission and distribution	104,923,702	8,629	—	—	104,932,331
General plant	45,046,665	248,577	(5,566,168)	—	39,729,074
Total water	<u>244,920,757</u>	<u>257,206</u>	<u>(5,566,168)</u>	<u>—</u>	<u>239,611,795</u>
Property, plant, and equipment	1,065,894,509	6,941,064	(22,649,676)	(35,240)	1,050,150,657
Construction work in progress – not depreciable	31,016,112	92,065,078	—	(5,943,618)	117,137,572
Total capital assets	<u>1,096,910,621</u>	<u>99,006,142</u>	<u>(22,649,676)</u>	<u>(5,978,858)</u>	<u>1,167,288,229</u>
Less accumulated depreciation:					
Electric:					
Production plant	241,733,204	10,740,106	—	—	252,473,310
Transmission and distribution	128,493,439	7,859,295	(4,675)	—	136,348,059
General plant	53,248,632	3,876,240	(12,452,559)	—	44,672,313
Total electric	<u>423,475,275</u>	<u>22,475,641</u>	<u>(12,457,234)</u>	<u>—</u>	<u>433,493,682</u>
Water:					
Production plant	24,130,421	1,994,919	—	—	26,125,340
Transmission and distribution	24,331,837	1,793,798	—	—	26,125,635
General plant	23,299,803	929,795	(4,688,774)	—	19,540,824
Total water	<u>71,762,061</u>	<u>4,718,512</u>	<u>(4,688,774)</u>	<u>—</u>	<u>71,791,799</u>
Combined total	<u>495,237,336</u>	<u>27,194,153</u>	<u>(17,146,008)</u>	<u>—</u>	<u>505,285,481</u>
Capital assets, net	<u>\$ 601,673,285</u>	<u>71,811,989</u>	<u>(5,503,668)</u>	<u>(5,978,858)</u>	<u>662,002,748</u>

**BOARD OF PUBLIC UTILITIES**

Notes to Financial Statements

December 31, 2006 and 2005

**(6) Long-Term Debt**

The BPU's indebtedness as of December 31, 2006 consists of the following obligations:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amount due in one year</u>
Revenue bonds:					
1992	\$ 15,360,565	—	(3,460,590)	11,899,975	2,952,986
1998	55,645,000	—	(4,760,000)	50,885,000	5,310,000
1999	18,225,000	—	(400,000)	17,825,000	425,000
2001	15,425,000	—	(635,000)	14,790,000	670,000
2004 refunding	125,705,000	—	(415,000)	125,290,000	435,000
2004B	114,420,000	—	(1,155,000)	113,265,000	1,160,000
	<u>344,780,565</u>	—	<u>(10,825,590)</u>	<u>333,954,975</u>	<u>10,952,986</u>
Less unamortized loss on refunding	(2,526,168)	—	476,422	(2,049,746)	
Unamortized premium	3,710,666	—	(147,807)	3,562,859	
Unamortized discount	(435,274)	—	23,057	(412,217)	
Total revenue bonds	<u>345,529,789</u>	—	<u>(10,473,918)</u>	<u>335,055,871</u>	
Government loans	<u>17,076,082</u>	<u>5,215,865</u>	<u>(1,820,739)</u>	<u>20,471,208</u>	<u>804,415</u>
	<u>\$ 362,605,871</u>	<u>5,215,865</u>	<u>(12,294,657)</u>	<u>355,527,079</u>	<u>11,757,401</u>

The BPU's indebtedness as of December 31, 2005 consists of the following obligations:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amount due in one year</u>
Revenue bonds:					
1992	\$ 19,048,483	—	(3,687,918)	15,360,565	3,460,592
1998	60,175,000	—	(4,530,000)	55,645,000	4,760,000
1999	19,475,000	—	(1,250,000)	18,225,000	400,000
2001	16,030,000	—	(605,000)	15,425,000	635,000
2004 refunding	126,005,000	—	(300,000)	125,705,000	415,000
2004B	115,535,000	—	(1,115,000)	114,420,000	1,155,000
	<u>356,268,483</u>	—	<u>(11,487,918)</u>	<u>344,780,565</u>	<u>10,825,592</u>
Less unamortized loss on refunding	(3,002,595)	—	476,427	(2,526,168)	
Unamortized premium	3,875,986	—	(165,320)	3,710,666	
Unamortized discount	(458,331)	—	23,057	(435,274)	
Total revenue bonds	<u>356,683,543</u>	—	<u>(11,153,754)</u>	<u>345,529,789</u>	
Government loans	<u>11,297,568</u>	<u>7,151,995</u>	<u>(1,373,481)</u>	<u>17,076,082</u>	<u>1,145,592</u>
	<u>\$ 367,981,111</u>	<u>7,151,995</u>	<u>(12,527,235)</u>	<u>362,605,871</u>	<u>11,971,184</u>

**BOARD OF PUBLIC UTILITIES**

Notes to Financial Statements

December 31, 2006 and 2005

Details of utility system revenue bonds outstanding at December 31, 2006 and 2005 are as follows:

<u>Revenue bonds</u>	<u>Interest rate</u>	<u>Original amount</u>	<u>Maturity</u>	<u>2006</u>	<u>2005</u>
1992 Series	4.70 – 6.90%	\$ 80,445,000	9-01-16	\$ 11,899,975	15,360,565
1998 Series	4.00 – 5.25	81,375,000	9-01-28	50,885,000	55,645,000
1999 Series	5.00 – 5.95	25,325,000	9-01-28	17,825,000	18,225,000
2001 Series	4.00 – 5.95	17,170,000	5-01-21	14,790,000	15,425,000
2004 Refunding	5.60 – 5.65	126,005,000	9-01-23	125,290,000	125,705,000
2004B	3.00 – 5.00	115,535,000	9-01-32	113,265,000	114,420,000
Subtotal				333,954,975	344,780,565
Unamortized loss on refunding				(2,049,746)	(2,526,168)
Current maturities				(10,952,986)	(10,825,592)
Unamortized premium				3,562,859	3,710,666
Unamortized discount				(412,217)	(435,274)
Total utility system revenue bonds				<u>\$ 324,102,885</u>	<u>334,704,197</u>

Interest on portions of the series 1992, 1998, 1999, 2001, 2004 refunding, and 2004B utility system revenue bonds are payable on a semiannual basis. Interest on a portion of the series 1992 utility system revenue bond is payable at various dates through maturity. As of December 31, 2006 and 2005, the BPU was in compliance with all required debt covenant ratios.

The debt service to maturity on the outstanding BPU revenue bonds as of December 31, 2006 is as follows:

	<u>Principal</u>	<u>Interest (including accreted)</u>
Bond years ending December 31:		
2007	\$ 10,952,986	21,904,222
2008	9,958,764	21,708,074
2009	6,736,710	21,518,011
2010	6,721,515	21,490,498
2011	12,575,000	15,680,620
2012 – 2016	69,395,000	67,706,333
2017 – 2021	82,845,000	47,971,273
2022 – 2026	66,905,000	26,409,044
2027 – 2031	56,320,000	11,111,123
2032 – 2034	11,545,000	577,250
	<u>\$ 333,954,975</u>	<u>256,076,448</u>

**BOARD OF PUBLIC UTILITIES**

Notes to Financial Statements

December 31, 2006 and 2005

The utility system revenue bond indebtedness requires special reserves and accounts as follows:

<u>Account</u>	<u>Authorized expenditure</u>
Debt service and reserve	Paying current principal and interest on bonds.
Construction	Acquiring, constructing, and installing capital improvements.
Improvement and emergency	Financing major renewals, repairs and replacements, and extraordinary or unforeseen expenditures.

The utility system revenue bond debt service and reserve account is held in escrow in a bank acting as trustee for the BPU. The utility system revenue bond indentures also provide for a bond reserve account to be held by the trustee for the future payments of principal and interest in the event that the net revenues of the utility system are less than or equal to 130% of the maximum annual debt service on the bonds. All amounts are reported on the accompanying balance sheets as restricted assets.

The current indentures also require the BPU to establish rates and collect charges sufficient to pay the operating, maintenance, and debt service costs of the utilities; to maintain the accounts listed above; and to provide net operating income, before depreciation and payment in lieu of taxes, of at least 120% of the maximum annual debt service due on the outstanding bonds. All of the BPU's utility plant facilities are pledged under the terms of the indentures.

In prior years, the BPU completed an "in substance" defeasance of utility system revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, neither the trust account asset nor the liabilities for the defeased bonds are included in the BPU's financial statements. At December 31, 2006, outstanding utility system revenue bonds in the amount of \$13,648,156 are considered substantively defeased.

Total indebtedness also includes government loans, which represent the amounts borrowed from KDHE for the purpose of capital improvements to be repaid in installments over 20 years ending 2025.

**BOARD OF PUBLIC UTILITIES**

Notes to Financial Statements

December 31, 2006 and 2005

The debt service to maturity on the outstanding BPU government loans as of December 31, 2006 is as follows:

	<u>Principal</u>	<u>Interest (including accreted)</u>
Years ending December 31:		
2007	\$ 804,415	728,755
2008	994,015	844,091
2009	1,032,209	809,409
2010	1,071,873	773,392
2011	1,113,063	735,989
2012 – 2016	6,240,835	3,066,531
2017 – 2021	7,536,169	1,890,259
2022 – 2026	1,678,629	140,142
	<u>\$ 20,471,208</u>	<u>8,988,568</u>

**(7) Capital Lease Obligations**

The BPU is obligated under capital leases covering a coal dozer and software that expire at various dates during the next three years. At December 31, 2006 and 2005, the gross amount of plant and equipment and related accumulated amortization recorded under capital leases were as follows:

	<u>2006</u>	<u>2005</u>
Office furniture and equipment	\$ 2,846,147	5,278,075
Transportation equipment	647,750	860,114
	3,493,897	6,138,189
Less accumulated amortization	<u>151,887</u>	<u>347,658</u>
	<u>\$ 3,342,010</u>	<u>5,790,531</u>

**BOARD OF PUBLIC UTILITIES**

Notes to Financial Statements

December 31, 2006 and 2005

At December 31, 2006, the net present value of minimum lease payments on capital lease obligations was \$3,342,010; \$2,724,359 of which relates to capital software leases. Future lease payments under these capital leases are as follows:

Year ending December 31:	
2007	\$ 1,704,964
2008	1,598,417
2009	<u>190,516</u>
Total minimum lease payments	3,493,897
Amounts representing interest at 4.42% – 7.70%	<u>151,887</u>
Present value of net minimum lease payments	<u><u>\$ 3,342,010</u></u>

## BOARD OF PUBLIC UTILITIES

Notes to Financial Statements

December 31, 2006 and 2005

### (8) Regulatory Assets and Liabilities

The BPU is subject to the provisions of SFAS Statement No. 71 and has recorded assets and liabilities on its balance sheet resulting from the effects of the ratemaking process, which would not be recorded under GAAP for non-regulated entities. Regulatory assets represent costs incurred that have been deferred because future recovery in customer rates is probable. Regulatory liabilities generally represent probable future reductions in revenue or refunds to customers. Future recovery of regulatory assets is not assured, but is generally subject to review by regulators in rate proceedings for matters such as prudence and reasonableness. Future reductions in revenue or refunds for regulatory liabilities generally are not mandated, pending future rate proceedings or actions by the regulators. Management regularly assesses whether regulatory assets and liabilities are probable of future recovery or refund by considering factors such as decisions by the BPU's rate case filings; decisions in other regulatory proceedings, including decisions related to other companies that establish precedence on matters applicable to the BPU; and changes in laws and regulations. If recovery or refund of regulatory assets or liabilities is not approved by regulators or is no longer deemed probable, these regulatory assets or liabilities are recognized in the current period results of operations. The BPU's continued ability to meet the criteria for application of SFAS Statement No. 71 may be affected in the future by restructuring and deregulation in the electric industry. In the event that SFAS Statement No. 71 is no longer applied to a deregulated portion of the BPU's operations, the related regulatory assets and liabilities would be written off unless an appropriate regulatory recovery mechanism is provided. Additionally, these factors could result in an impairment of utility plant assets if the cost of the assets could not be expected to be recovered in customer rates. Regulatory assets and liabilities as of December 31, 2006 and 2005 are as follows:

	<b>Amortization ending period</b>		<b>2006</b>	<b>2005</b>
Regulatory assets:				
Miner benefits and mine reclamation costs	2016	\$	4,654,900	5,349,491
Fuel purchased power costs	2007		746,226	7,142,543
Total regulatory assets		\$	5,401,126	12,492,034
Regulatory liabilities:				
Fuel purchased power costs	2007		1,245,170	4,286,111
Total regulatory liabilities		\$	1,245,170	4,286,111

Regulatory assets for which costs have been incurred have been included (or are expected to be included for costs incurred subsequent to the most recently approved rate case) in the BPU's rate base, thereby providing a return on invested costs when included in rate base. Certain regulatory assets do not result from cash expenditures and, therefore, do not represent investments included in rate base or have offsetting liabilities that reduce rate base.

### (9) Payment-in-Lieu of Taxes (PILOT)

The BPU is exempt from federal and state income taxes and local property taxes because it is an administrative agency of the Unified Government. However, the BPU is required by a Charter Ordinance

## BOARD OF PUBLIC UTILITIES

### Notes to Financial Statements

December 31, 2006 and 2005

to pay a percentage of gross operating revenues to the Unified Government. The Charter Ordinance established a range of 5.0% to 15.0%. Currently, the payment-in-lieu of tax is established at 7.9%, which amounted to \$18,374,439 and \$16,325,334 during 2006 and 2005, respectively, as payment-in-lieu of taxes (PILOT). The PILOT is collected by the BPU through incorporation in the rates as a supplemental rate rider.

In addition to these payments to the Unified Government, the BPU also contributes free services to the Unified Government, such as street lighting, fire hydrant services, traffic signals, and collection of the Unified Government sewer and trash charges. These service contributions approximated \$12,583,845 and \$10,178,183, or 4.9% and 4.6% of total operating revenue, for 2006 and 2005, respectively.

#### (10) Commitments and Contingencies

##### (a) Power Sales Agreements

In 1982 and 1983, the BPU entered into power agreements with the Kansas Municipal Energy Agency (KMEA) and the City of Columbia, Missouri (Columbia). The agreements entitle KMEA and Columbia to purchase 15.86% and 8.51%, respectively, of the net available capacity of the BPU's Nearman power station. The power agreements obligate KMEA and Columbia to pay a demand charge for kilowatts purchased, a fuel charge, operation and maintenance charges, and the PILOT for their respective power purchases. Total revenue from the power sales agreements for the years ended December 31, 2006 and 2005 were approximately \$11,674,562 and \$12,215,802, respectively, and are included in other revenues in the statements of revenues, expenses, and changes in net assets.

On March 1, 2000, BPU entered into an agreement with The Energy Authority (TEA) to both purchase and market excess wholesale energy for BPU. This contract expired October 31, 2006. On November 1, 2006, BPU entered into an agreement with Tenaska Power Services Company (Tenaska) to both purchase and market excess wholesale energy for BPU. The BPU's wholesale purchases and sales through TEA and Tenaska for 2006 and 2005 are summarized as follows:

	<u>2006</u>	<u>2005</u>
Purchased power	\$ 35,577,006	30,408,757
Wholesale sales	889,504	2,802,906

##### (b) Coal Contracts

The BPU purchases all coal for its electric generating stations through contracts with Western Fuel Association (WFA) and affiliates. WFA, in turn, contracts with coal producers and railroads to meet its coal supply and delivery commitments to the BPU. The BPU is required to pay all costs incurred by WFA in acquiring and delivering the coal as well as a per ton management cost.

The BPU has an agreement with WFA for the purchase of coal for the BPU's Nearman Creek power station. The BPU guarantees the performance by WFA of each and every obligation imposed under the provisions of a coal purchase agreement, as such obligations related to coal delivered or

## BOARD OF PUBLIC UTILITIES

### Notes to Financial Statements

December 31, 2006 and 2005

deliverable to the BPU's Nearman power station. Under provisions of the agreement, WFA is obligated to purchase for the Nearman power station all the coal required through December 31, 2017. The purchase price of the coal is based on WFA's cost of acquiring and delivering coal. Such costs are fixed by contract through December 31, 2009.

The delivery of the coal to Nearman is covered by contracts WFA has with the Union Pacific Railroad and the Burlington Northern/Santa Fe (BNSF) Railroad. The BNSF contract expires December 31, 2009; however, WFA and the BPU have agreed that the Union Pacific Railroad will participate in deliveries to Nearman until December 31, 2017. The cost to deliver the coal is established in the contract with a base price, which is adjusted twice yearly by indices set out in the transportation contracts.

The coal requirements for the Quindaro and Kaw stations are covered under an agreement with WFA. The agreement was part of a larger commitment to acquire coal from the Brushy Creek Coal Mine. This contract continues as long as costs are incurred to WFA in meeting its obligations to the BPU. A coal contract with Arch Coal Sales Company, Inc. began on January 1, 2006. The contract is a five-year contract to purchase coal at a price that is fixed for each year.

The BPU purchased approximately 1.88 million tons of coal during 2006. Quindaro burned approximately 686,000 tons and Nearman burned approximately 905,000 tons.

#### **(c) *Employees' Retirement Pension Plan***

The Employees' Retirement Pension Plan (the Plan) of the BPU is a single employer, contributory defined benefit pension plan. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained from the Board of Pension Trustees of the Employees' Retirement Pension Plan. The Plan is governed by State Statutes, which, in essence, provide for the establishment of a Board of Pension Trustees and provides authorization for the Plan to take control and custody of all assets, property, and funds presently held, controlled, and in the possession of the Plan's Board of Pension Trustees. The BPU does not act in a fiduciary or trustee capacity for the Plan and, as such, the Plan's financial activities are not reported in the BPU's financial statements. The BPU's total payroll for the years ended December 31, 2006 and 2005 was approximately \$46,424,000 and \$44,714,000, respectively, of which approximately \$45,081,000 and \$43,630,000, respectively, was payroll of Plan participants.

All full-time BPU employees who are 25 years of age or older are eligible to participate in the Plan. Benefits vest after 5 years of service or at age 55, whichever comes first.

BPU employees who retire at or after age 55 are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.2% of their average salary multiplied by the years of credited service through December 31, 2003 and 1.8% of their average salary multiplied by the years of credited service after December 31, 2003. On January 1 of each year after retirement, the monthly benefit is increased by 3%, prorated for the number of months in the first retirement year. The Plan also provides death benefits. The benefit provisions and all other requirements are established by State Statutes.

**BOARD OF PUBLIC UTILITIES**

Notes to Financial Statements

December 31, 2006 and 2005

Funding is provided by contributions from Plan members and the BPU based on rates negotiated between the BPU and its employees.

Members contribute 5.5% of their annual compensation. The BPU contributes an amount that matches the member contributions plus an amount calculated by the Plan's actuary to amortize the net past service liability over no more than the remaining portion of the 40-year period that began January 1, 1970.

Total contributions were \$5,312,268 for the year ended December 31, 2006. Of the total contributions in 2006, the BPU contributed \$2,832,836 (6.3% of current covered payroll in 2006) and the Plan participants contributed \$2,479,432 (5.5% of current covered payroll for 2006).

<u>Fiscal year ending</u>	<u>Three-year trend information</u>		
	<u>Annual pension cost</u>	<u>Percentage of Annual Pension Cost contributed</u>	<u>Net pension obligation (asset)</u>
December 31, 2004	\$ 3,887,485	69.51	(6,488,036)
December 31, 2005	5,241,593	54.01	(4,077,350)
December 31, 2006	432,439	655.08	(6,477,747)

The information presented in the required supplementary information was determined as part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2007
Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	Forty years beginning January 1, 1970
Asset valuation method	Average adjusted asset method
Actuarial assumptions:	
Investment rate of return	8%

Projected salary increase based on age as follows:

<u>Age</u>	<u>Salary scale</u>
25	6.5%
70	4.5

**BOARD OF PUBLIC UTILITIES**

Notes to Financial Statements

December 31, 2006 and 2005

The annual pension cost and net pension asset as of January 1, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Annual required contribution	\$ 373,972	5,432,792
Interest on net pension asset	(326,188)	(519,043)
Adjustment to annual required contribution	384,656	327,844
Annual pension cost	432,439	5,241,593
Contributions made	2,832,836	2,830,907
Increase (decrease) in net pension asset	2,400,397	(2,410,686)
Net pension asset, beginning of year	4,077,350	6,488,036
Net pension asset, end of year	\$ <u>6,477,747</u>	<u>4,077,350</u>

**(d) *Postretirement Health Care Benefits***

The BPU, under its own authority, provides postretirement medical benefits to retired employees and their dependents. These benefits are funded as claims are incurred.

Employees are given a 90-day window to retire with medical coverage at ages 55 and above with 10 years of service. The retiree plan is a comprehensive major medical plan with a \$100 deductible per individual or \$200 per family. The plan pays 80% of the next \$12,500 of allowable charges and 100% thereafter. The plan has a lifetime maximum of \$250,000.

Benefits cease at the earlier of the date the retired employee attains age 65 or death. Spouse benefits end at the earlier of the date the spouse attains age 65, the date the employee attains age 65, or the spouse's death.

**BOARD OF PUBLIC UTILITIES**

Notes to Financial Statements

December 31, 2006 and 2005

Retirees are not required to contribute toward the cost of the postretirement benefits. There were 363 participants eligible to receive benefits under this plan as of January 1, 2006.

	<u>2006</u>	<u>2005</u>
Change in benefit obligation:		
Postretirement benefit obligation at January 1	\$ 35,807,791	31,346,483
Service cost	1,385,159	1,101,523
Interest cost	1,902,061	1,668,954
Benefits paid	(2,125,810)	(2,003,730)
Actuarial loss	<u>(513,267)</u>	<u>3,694,561</u>
Postretirement benefit obligation at December 31	<u>\$ 36,455,934</u>	<u>35,807,791</u>
Change in plan assets:		
Fair value of plan assets at December 31	\$ —	—
Unfunded status	36,455,934	35,807,791
Unrecognized net transition obligation	(7,619,236)	(8,465,818)
Unrecognized prior service cost	(668,635)	(915,443)
Unrecognized net gain	<u>(3,242,578)</u>	<u>(3,771,476)</u>
Postretirement benefit liability at December 31	<u>\$ 24,925,485</u>	<u>22,655,054</u>

The discount rate was 5.5% in 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Components of net periodic postretirement benefit cost:		
Service cost	\$ 1,385,159	1,101,523
Interest cost	1,902,061	1,668,954
Amortization of transition obligation	846,582	846,582
Amortization of prior service cost	246,808	246,808
Loss (gain)	<u>15,631</u>	<u>—</u>
Net periodic postretirement benefit cost	<u>\$ 4,396,241</u>	<u>3,863,867</u>
	<u>1% point increase</u>	<u>1% point decrease</u>
Effect on total of service and interest cost component	\$ 350,624	336,833
Effect on postretirement benefit obligation	2,715,499	2,759,157

## BOARD OF PUBLIC UTILITIES

Notes to Financial Statements

December 31, 2006 and 2005

**(e) Risk Management**

The BPU is exposed to various risks of loss related to tort claims; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The BPU is self-insured for workers' compensation, healthcare, certain general liability claims, and a portion of the automobile and small vehicle fleet. The BPU is responsible for the first \$350,000 of a workers' compensation claim per employee/per occurrence and workers' compensation claims greater than \$350,000, and up to \$35,000,000 per employee/per occurrence are fully insured. The BPU is essentially 100% self-insured for health care claims and is responsible for the first \$500,000 of general liability and automobile insurance claims. In addition, any general liability or automobile claims greater than \$35,000,000 are the responsibility of BPU. Settlements did not exceed insurance coverage for the past three years. At December 31, 2006 and 2005, the BPU has established a liability of \$1,112,813 and \$443,574, respectively, which is based on estimates of the amounts needed to pay prior and current year claims. The liability is based on the requirement that a liability for claims incurred prior to the balance sheet date be recorded if information related to such claims is available prior to the issuance of the financial statements and the amount of loss can be reasonably estimated. The total amount of claims and judgments are expected to become due within one year. Changes in the claims liability for 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Beginning balance	\$ 443,574	1,164,563
Additions	8,650,675	7,810,005
Payments	<u>(7,981,436)</u>	<u>(8,530,994)</u>
Ending balance	<u>\$ 1,112,813</u>	<u>443,574</u>

## BOARD OF PUBLIC UTILITIES

Notes to Financial Statements

December 31, 2006 and 2005

### (f) *Environmental Compliance*

The BPU is subject to substantial regulation of air emissions and control equipment under federal, state, and county environmental laws and regulations. Nationwide, utilities with coal-fired generating units have been under heavy scrutiny and enforcement by the U.S. Environmental Protection Agency (EPA) and Department of Justice for matters related to permitting of modifications to those coal-fired units. This is referred to as “new source review permitting.” The BPU has engaged in critical self-evaluation of new source review permitting matters. A confidential letter, prepared by outside legal counsel retained by BPU evaluating aspects of new source review, was stolen from the BPU and provided to the government, the press, and members of the public. This letter inventoried potential violations and identified modifications to the BPU’s coal-fired units that may not meet regulation requirements. Subsequently, the BPU received inquiries from the EPA about its compliance with new source review permitting. In addition, the BPU has received from the EPA a Clean Air Act section 114 information request relating to projects that have been the subject of new source review permit investigations. Management does not know the impact that this will have on the BPU; however, the resolution of any inquiries by regulators or other government agencies about the BPU’s ability to comply with environmental laws and regulations could result in fines and/or penalties and the amounts of any such assessments could be material. The BPU will fully cooperate with any government inquiry. In addition, any future changes in environmental regulations may require the BPU to make material capital expenditures. The impact of any such future changes cannot be estimated.

### (11) **Principal Customers**

Electric and water charges to the BPU’s five largest retail customers and three largest wholesale customers expressed as a percentage of total operating revenues for the years ended December 31, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Principal retail customers:		
Owens Corning Fiberglass	3.7%	3.9%
General Motors Corporation	3.6	3.1
Certain Teed Corporation	3.6	3.4
Johnson County Water District No. 1	2.8	2.2
Griffen Wheel	2.1	N/A
Proctor & Gamble	N/A	2.0
Total principal retail customers	<u>15.8</u>	<u>14.6</u>
Principal wholesale customers:		
Kansas Municipal Energy Authority	2.8	3.4
City of Columbia, Missouri	2.0	2.2
The Energy Authority	0.2	1.3
Total principal wholesale customers	<u>5.0</u>	<u>6.9</u>
Principal customers	<u>20.8%</u>	<u>21.5%</u>

## BOARD OF PUBLIC UTILITIES

## Required Supplementary Information

## Schedule of Funding Progress

(Dollars in millions)

(Unaudited)

December 31, 2006

<u>Actuarial valuation date, January 1</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Funded ratio</u>	<u>Unfunded (overfunded) AAL (UAAL)</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
2004	\$ 344.6	164.5	209.5	(180.1)	41.0	(4.4)%
2005	343.0	167.6	204.7	(175.4)	43.6	(4.0)
2006	347.6	173.4	200.4	(174.2)	45.1	(3.9)

See accompanying independent auditors' report.



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## BOARD OF PUBLIC UTILITIES

Combining Balance Sheets

December 31, 2006 and 2005

	Electric		Water		Total Utility	
	2006	2005	2006	2005	2006	2005
Noncurrent assets:						
Capital assets:						
Property, plant, and equipment	\$ 876,195,110	810,538,866	264,014,748	239,611,791	1,140,209,858	1,050,150,657
Less accumulated depreciation	(443,428,486)	(432,090,517)	(76,458,291)	(73,194,964)	(519,886,777)	(505,285,481)
Plant in service, net	432,766,624	378,448,349	187,556,457	166,416,827	620,323,081	544,865,176
Construction work in progress	47,362,206	90,736,107	23,894,190	26,401,465	71,256,396	117,137,572
Capital assets, net	480,128,830	469,184,456	211,450,647	192,818,292	691,579,477	662,002,748
Restricted assets:						
Cash and cash equivalents	23,667,192	17,835,224	9,576,571	3,299,476	33,243,763	21,134,700
Investments	5,587,680	44,648,448	1,578,157	15,643,985	7,165,837	60,292,433
Total restricted assets	29,254,872	62,483,672	11,154,728	18,943,461	40,409,600	81,427,133
Prepaid pension	4,577,187	2,488,838	1,900,560	1,588,512	6,477,747	4,077,350
Debt issue costs	4,073,218	4,301,251	1,344,405	1,418,604	5,417,623	5,719,855
System development costs	1,618,086	1,145,136	865,678	517,426	2,483,764	1,662,562
Regulatory assets	5,401,126	12,492,034	—	—	5,401,126	12,492,034
Total noncurrent assets	525,053,319	552,095,387	226,716,018	215,286,295	751,769,337	767,381,682
Current assets:						
Cash and cash equivalents	1,354,406	3,206,573	4,644,289	3,149,936	5,998,695	6,356,509
Investments	10,319,494	10,448,037	7,347,905	9,806,535	17,667,399	20,254,572
Accounts receivable – customers and other	19,081,331	24,167,510	3,640,965	4,775,335	22,722,296	28,942,845
Accounts receivable – unbilled	7,810,682	7,085,431	1,507,377	1,501,342	9,318,059	8,586,773
Allowance for doubtful accounts	(1,169,014)	(2,019,726)	(155,137)	(399,313)	(1,324,151)	(2,419,039)
Inventories	29,680,069	24,303,216	1,965,521	1,373,066	31,645,590	25,676,282
Prepayments and other current assets	1,747,258	2,669,926	177,761	233,899	1,925,019	2,903,825
Total current assets	68,824,226	69,860,967	19,128,681	20,440,800	87,952,907	90,301,767
Total assets	\$ 593,877,545	621,956,354	245,844,699	235,727,095	839,722,244	857,683,449

## BOARD OF PUBLIC UTILITIES

## Combining Balance Sheets

December 31, 2006 and 2005

	Electric		Water		Total Utility	
	2006	2005	2006	2005	2006	2005
<b>Net assets:</b>						
Invested in capital assets, net of related debt	\$ 240,792,427	247,947,522	98,750,654	89,443,916	339,543,081	337,391,438
Restricted	9,909,616	10,007,766	2,182,665	2,183,566	12,092,281	12,191,332
Unrestricted	32,355,278	15,883,566	(258,588)	4,161,850	32,096,690	20,045,416
Total net assets	<u>283,057,321</u>	<u>273,838,854</u>	<u>100,674,731</u>	<u>95,789,332</u>	<u>383,732,052</u>	<u>369,628,186</u>
<b>Liabilities:</b>						
Long-term debt – revenue bonds:						
Principal	229,597,760	238,257,172	94,505,125	96,447,025	324,102,885	334,704,197
Accreted interest	14,662,329	17,005,037	3,007,385	3,487,897	17,669,714	20,492,934
Government loans	—	603,677	19,666,793	15,326,813	19,666,793	15,930,490
Capital lease obligations	1,237,682	4,019,779	399,364	850,090	1,637,046	4,869,869
Total long-term debt and capital lease obligations	<u>245,497,771</u>	<u>259,885,665</u>	<u>117,578,667</u>	<u>116,111,825</u>	<u>363,076,438</u>	<u>375,997,490</u>
Regulatory liabilities	1,245,170	4,286,111	—	—	1,245,170	4,286,111
Noncurrent liabilities	<u>246,742,941</u>	<u>264,171,776</u>	<u>117,578,667</u>	<u>116,111,825</u>	<u>364,321,608</u>	<u>380,283,601</u>
<b>Current liabilities:</b>						
Current maturities of revenue bonds	8,791,909	8,704,293	2,161,077	2,121,299	10,952,986	10,825,592
Current maturities of government loans	—	521,356	804,415	624,236	804,415	1,145,592
Current maturities of capital lease obligations	1,237,747	2,393,840	467,217	701,649	1,704,964	3,095,489
Accrued interest	3,897,726	3,990,732	1,590,382	1,617,243	5,488,108	5,607,975
Customer deposits	2,804,725	2,518,207	414,702	376,622	3,219,427	2,894,829
Accounts payable	19,499,813	36,992,807	6,334,135	2,706,731	25,833,948	39,699,538
Payroll and payroll taxes	7,033,439	6,980,845	1,216,210	1,184,622	8,249,649	8,165,467
Accrued claims payable	5,822,528	9,852,253	268,205	185,079	6,090,733	10,037,332
Postretirement benefit	19,673,198	17,844,894	5,252,287	4,810,160	24,925,485	22,655,054
Other accrued liabilities	3,185,208	2,371,871	69,978	46,825	3,255,186	2,418,696
Payment-in-lieu of taxes	958,605	1,078,648	185,078	147,450	1,143,683	1,226,098
Interdepartmental balances	(8,827,615)	(9,304,022)	8,827,615	9,304,022	—	—
Total current liabilities	<u>64,077,283</u>	<u>83,945,724</u>	<u>27,591,301</u>	<u>23,825,938</u>	<u>91,668,584</u>	<u>107,771,662</u>
Total liabilities	<u>310,820,224</u>	<u>348,117,500</u>	<u>145,169,968</u>	<u>139,937,763</u>	<u>455,990,192</u>	<u>488,055,263</u>
Total liabilities and net assets	<u>\$ 593,877,545</u>	<u>621,956,354</u>	<u>245,844,699</u>	<u>235,727,095</u>	<u>839,722,244</u>	<u>857,683,449</u>

See accompanying independent auditors' report.

## BOARD OF PUBLIC UTILITIES

Combining Schedule of Revenues, Expenses, and Changes in Net Assets  
Years ended December 31, 2006 and 2005

	Electric		Water		Total Utility	
	2006	2005	2006	2005	2006	2005
Operating revenues:						
Residential	\$ 54,131,458	44,116,173	17,769,374	17,390,172	71,900,832	61,506,345
Commercial	71,126,503	56,254,173	8,464,471	7,339,919	79,590,974	63,594,092
Industrial	52,357,554	40,788,506	3,464,670	3,578,024	55,822,224	44,366,530
Other	28,649,833	31,788,941	4,571,929	4,364,242	33,221,762	36,153,183
Payment-in-lieu of taxes	15,721,271	13,766,419	2,653,168	2,558,915	18,374,439	16,325,334
Total operating revenues	<u>221,986,619</u>	<u>186,714,212</u>	<u>36,923,612</u>	<u>35,231,272</u>	<u>258,910,231</u>	<u>221,945,484</u>
Operating expenses:						
Fuel	46,224,344	29,830,298	—	—	46,224,344	29,830,298
Purchased power	39,269,167	33,914,274	—	—	39,269,167	33,914,274
Production	30,001,492	24,863,553	3,504,002	3,767,568	33,505,494	28,631,121
Transmission and distribution	20,793,919	20,277,452	10,886,337	9,648,634	31,680,256	29,926,086
General and administrative	25,031,700	33,086,467	6,024,725	7,856,023	31,056,425	40,942,490
Depreciation and amortization	25,155,287	22,765,808	5,395,187	5,779,446	30,550,474	28,545,254
Total operating expenses	<u>186,475,909</u>	<u>164,737,852</u>	<u>25,810,251</u>	<u>27,051,671</u>	<u>212,286,160</u>	<u>191,789,523</u>
Operating income	<u>35,510,710</u>	<u>21,976,360</u>	<u>11,113,361</u>	<u>8,179,601</u>	<u>46,624,071</u>	<u>30,155,961</u>
Nonoperating income (expense):						
Interest income	2,781,679	3,283,429	1,113,442	908,945	3,895,121	4,192,374
Interest expense	(14,134,148)	(14,420,739)	(5,463,828)	(5,495,994)	(19,597,976)	(19,916,733)
Loss on disposal of assets	—	(3,828,794)	—	(699,359)	—	(4,528,153)
Other	781,497	718,359	(628,404)	(431,299)	153,093	287,060
Total nonoperating expense	<u>(10,570,972)</u>	<u>(14,247,745)</u>	<u>(4,978,790)</u>	<u>(5,717,707)</u>	<u>(15,549,762)</u>	<u>(19,965,452)</u>
Income before contributions and transfers	<u>24,939,738</u>	<u>7,728,615</u>	<u>6,134,571</u>	<u>2,461,894</u>	<u>31,074,309</u>	<u>10,190,509</u>
Contributions and transfers:						
Payment-in-lieu of taxes	(15,721,271)	(13,766,419)	(2,653,168)	(2,558,915)	(18,374,439)	(16,325,334)
Contributions from developers and others	—	—	1,403,996	1,281,668	1,403,996	1,281,668
Change in net assets	<u>9,218,467</u>	<u>(6,037,804)</u>	<u>4,885,399</u>	<u>1,184,647</u>	<u>14,103,866</u>	<u>(4,853,157)</u>
Net assets, beginning of year	<u>273,838,854</u>	<u>279,876,658</u>	<u>95,789,332</u>	<u>94,604,685</u>	<u>369,628,186</u>	<u>374,481,343</u>
Net assets, end of year	<u>\$ 283,057,321</u>	<u>273,838,854</u>	<u>100,674,731</u>	<u>95,789,332</u>	<u>383,732,052</u>	<u>369,628,186</u>

See accompanying independent auditors' report.

**Independent Auditors' Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters Based  
on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

The Board of Directors  
Board of Public Utilities:

We have audited the financial statements of the Board of Public Utilities of Kansas City, Kansas (the BPU) as of and for the year ended December 31, 2006, and have issued our report thereon dated April 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the BPU's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BPU's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the BPU's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be

material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the BPU's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, federal awarding agencies, and pass through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

**KPMG LLP**

Kansas City, Missouri  
April 25, 2007

## BOARD OF PUBLIC UTILITIES

### Schedule of Findings and Responses

December 31, 2006 and 2005

#### Findings and Responses to Significant Deficiencies in Internal Control over Financial Reporting

**Finding 06-01: Inadequate Controls over Billing System**

**Significant Deficiency:** The BPU's billing system allows users inappropriate access to utility programs and data tables, lacks the ability to perform data entry edit checks, has inappropriate password controls, and has not had any patches or updates applied since its implementation.

**Effect:** A BPU employee could potentially access and alter information impacting the financial statements.

**Management's Response:** The BPU management is addressing the deficiency identified by implementing the change control process currently established within the Information Technology division. This will allow changes to be tracked and verified by best accounting practices. Steps are also being developed to initiate the changing of passwords and password protocol to the standard adopted throughout other applications. BPU management is evaluating the existing customer billing system to improve the business process of the system in order to be able to support regulatory and financial requirements.

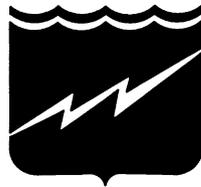


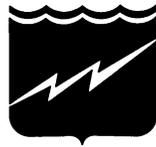
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**Statistical Section  
(Unaudited)**

**Financial Trends  
Revenue Capacity  
Debt Capacity  
Demographic and Economic Information  
Operating Information**

**Statistical  
Section**





## **Financial Trends**



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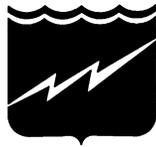


**Combined Operating Statements**  
**Last Ten Fiscal Years**

	1997	1998	1999	2000	2001
Operating Revenues	158,590,777	157,589,819	171,636,967	172,162,933	172,707,167
Operating Expenses					
Production	68,284,772	65,502,745	73,573,271	70,843,348	71,995,460
Transmission & Distribution	12,289,720	15,716,379	19,309,273	26,841,255	26,421,663
Customer Service	3,422,609	3,975,202	6,331,772	-	-
General and Administrative	19,199,056	20,881,929	20,521,994	25,876,489	28,952,585
Pilot	8,835,558	8,715,470	10,494,909	9,567,512	8,914,184
Depreciation & Amortization	22,290,872	22,048,354	23,160,282	24,415,475	24,441,114
Payroll Taxes	2,489,175	2,507,119	-	-	-
Purchased Power Amortization	-	-	-	-	-
Total Operating Expense	136,811,762	139,347,198	153,391,501	157,544,079	160,725,006
Operating Income	21,779,015	18,242,621	18,245,466	14,618,854	11,982,161
Nonoperating Income/Expense	12,539,136	12,840,087	12,769,673	14,565,071	13,784,463
Income/Loss Before Extraordinary Item	9,239,879	5,402,534	5,475,793	53,783	(1,802,302)
Extraordinary Item	9,226,413	-	-	-	-
Cumulative Effect of Changes in Accounting Principles	-	3,643,778	-	-	-
Pilot	-	-	-	-	-
Change in Net Assets	\$ 18,466,292	\$ 9,046,312	\$ 5,475,793	\$ 53,783	\$ (1,802,302)
Operating Revenues	191,351,509	201,535,316	207,407,693	221,945,484	258,910,232
Operating Expenses					
Production	71,575,197	74,595,079	85,103,214	92,375,693	118,999,005
Transmission & Distribution	23,691,279	28,687,267	28,456,949	29,926,086	31,680,256
Customer Service	-	-	-	7,295,462	8,219,596
General and Administrative	29,209,649	33,467,227	34,398,271	33,647,028	22,836,831
Pilot	-	-	-	-	-
Depreciation & Amortization	24,622,061	24,472,383	23,369,264	28,545,254	30,550,474
Payroll Taxes	-	-	-	-	-
Purchased Power Amortization	-	-	-	-	-
Total Operating Expense	157,353,116	169,898,282	177,603,506	191,769,523	212,286,162
Operating Income	33,998,393	31,637,034	29,804,187	30,155,961	46,624,070
Nonoperating Income/Expense	13,791,730	15,304,953	15,812,321	19,965,452	15,549,761
Income/Loss Before Extraordinary Item	20,206,663	16,332,081	13,991,866	10,190,509	31,074,309
Extraordinary Item	-	-	-	-	-
Cumulative Effect of Changes in Accounting Principles	379,873	1,166,323	275,314	1,281,668	1,403,996
Pilot	(13,279,641)	(13,916,680)	(14,673,298)	(16,325,434)	(18,374,439)
Change in Net Assets	\$ 7,306,895	\$ 3,581,724	\$ (406,118)	\$ (4,853,157)	\$ 14,103,866

**Footnotes:**

- (1) Includes fuel, purchased power and production
- (2) Included in general and administrative beginning in 2000
- (3) Includes general and administrative and provisions for doubtful accounts.
- (4) Payments in lieu of taxes. Pilot removed from operating expenses and considered a transfer beginning 2002 due to GASB 34.
- (5) Payroll taxes distributed to department's expense beginning in 1999.
- (6) GASB 34 implemented. Purchased power costs amortization from 2002 to 2004.
- (7) 2005 - Recognized Loss on Disposal of Assets
- (8) Gain from the Receipt of flood-related insurance proceeds.
- (9) 1998 - Cumulative effect of accounting change due to the implementation of GASB 27. Adoption of GASB 33 beginning in 2002.
- (10) Adoption of GASB 34 beginning in 2002.



## **Revenue Capacity**

## Electric Utility Systems Sales Last Ten Fiscal Years

Fiscal Year	Customer Class (1)	By Custom Class (Dollars)	By Customer Class (Kwh) (2)	Average Number of Customer Services	Average kWh/Customer- Residential Services	Average Revenue/ Customer- Residential Sales
1997	Residential	\$32,986,130	511,298,713	58,146	8,793	\$567.30
	Commercial	45,014,107	800,421,375	6,916		
	Industrial	30,831,664	798,687,616	112		
	Other	20,180,892	557,044,676	292		
	<b>Total</b>	<b>\$129,012,793</b>	<b>2,667,452,380</b>	<b>65,466</b>		
1998	Residential	\$34,171,258	543,913,298	57,856	9,401	\$590.63
	Commercial	44,291,825	820,089,166	6,786		
	Industrial	28,826,377	803,311,850	115		
	Other	15,510,134	570,028,372	289		
	<b>Total</b>	<b>\$122,799,594</b>	<b>2,737,342,686</b>	<b>65,046</b>		
1999	Residential	\$32,756,697	507,320,403	57,673	8,797	\$567.97
	Commercial	44,516,785	816,154,726	6,819		
	Industrial	31,666,051	854,696,057	119		
	Other	24,246,571	414,335,800	264		
	<b>Total</b>	<b>\$133,186,104</b>	<b>2,592,506,986</b>	<b>64,875</b>		
2000	Residential	\$35,705,004	545,307,672	57,956	9,409	\$616.04
	Commercial	45,193,739	822,626,899	6,892		
	Industrial	29,639,364	803,136,767	115		
	Other	23,947,011	288,171,475	262		
	<b>Total</b>	<b>\$134,485,118</b>	<b>2,459,242,813</b>	<b>65,225</b>		

## Electric Utility Systems Sales Last Ten Fiscal Years

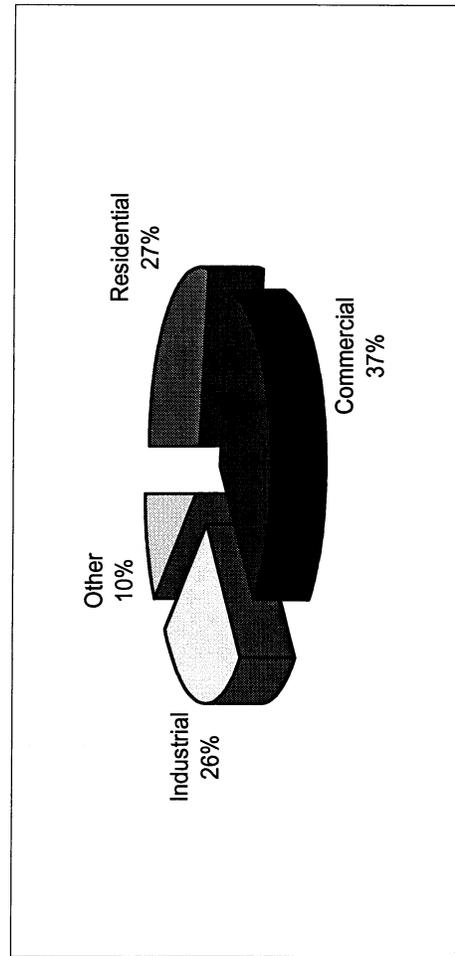
Fiscal Year	Customer Class (1)	By Custom Class (Dollars)	By Customer Class (Kwh) (2)	Average Number of Customer Services	Average kWh/Customer- Residential Services	Average Revenue/ Customer- Residential Sales
2001	Residential	\$35,377,550	550,869,096	57,846	9,523	\$611.58
	Commercial	44,657,134	802,679,313	6,943		
	Industrial	30,762,177	817,758,956	118		
	Other	22,615,413	519,123,634	252		
	Total	\$133,412,274	2,690,430,999	65,159		
2002	Residential	\$39,210,218	568,700,840	57,795	9,840	\$678.44
	Commercial	46,848,425	806,031,040	7,147		
	Industrial	32,125,988	822,335,834	115		
	Other	17,997,722	425,479,947	246		
	Total	\$136,182,353	2,622,547,661	65,303		
2003	Residential	\$39,717,885	525,368,930	60,523	8,680	\$656.24
	Commercial	50,243,742	814,699,133	7,870		
	Industrial	32,624,899	814,756,414	106		
	Other	18,797,472	520,060,228	250		
	Total	\$141,383,998	2,674,884,705	68,749		
2004	Residential	\$38,679,186	521,556,432	57,563	9,061	\$671.95
	Commercial	52,158,752	834,722,758	6,651		
	Industrial	36,365,066	904,499,429	98		
	Other	19,858,369	585,014,156	223		
	Total	\$147,061,373	2,845,792,775	64,535		

## Electric Utility Systems Sales Last Ten Fiscal Years

Fiscal Year	Customer Class (1)	By Custom Class (Dollars)	By Customer Class (Kwh) (2)	Average Number of Customer Services	Average kWh/Customer-Residential Services	Average Revenue/Customer-Residential Sales
2005	Residential	\$44,116,173	549,989,717	57,486	9,567	\$767.42
	Commercial	56,254,173	846,528,035	6,672		
	Industrial	40,788,506	920,894,297	99		
	Other	20,708,393	572,925,408	224		
	<b>Total</b>	<b>\$161,867,245</b>	<b>2,890,337,457</b>	<b>64,481</b>		
2006	Residential	\$54,131,458	562,349,076	57,500	9,780	\$941.42
	Commercial	71,126,503	910,094,493	6,733		
	Industrial	52,357,554	897,258,438	94		
	Other	19,978,877	457,359,735	242		
	<b>Total</b>	<b>\$197,594,392</b>	<b>2,827,061,742</b>	<b>64,569</b>		

(1) Other does not include forfeited discounts, miscellaneous services and rent from electric property.

(2) Kwh excludes Internal BPU department use and electric services provided to the Unified Government of Wyandotte County / Kansas City, Kansas



Footnote: Chart represents data for Fiscal Year 2006

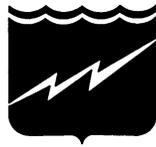
**Water Sales  
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Gallons Pumped</u>	<u>Gallons Sold</u>	<u>Operating Revenue</u>	<u>Average Number of Customer Services</u>	<u>Average Revenue Per Customer</u>
1997	9,749,000,000	6,826,856,872	\$20,742,426	52,161	\$397.66
1998	9,341,580,000	6,806,521,744	\$22,918,120	51,879	\$441.76
1999	10,210,008,000	7,027,892,344	\$24,908,017	51,727	\$481.53
2000	10,468,487,000	7,082,452,212	\$24,924,356	52,021	\$479.13
2001	10,292,669,000	7,135,029,880	\$24,837,663	51,882	\$478.73
2002	11,229,470,000	7,264,262,588	\$28,768,379	51,793	\$555.45
2003	11,755,190,000	7,156,918,604	\$32,081,858	50,891	\$630.40
2004	12,513,350,000	7,088,525,972	\$32,281,307	50,442	\$639.97
2005	13,179,970,000	7,314,650,112	\$32,672,356	50,979	\$640.90
2006	12,754,110,000	7,317,225,371	\$34,270,444	50,756	\$675.20

**NOTE:** Gallons sold excludes internal BPU department use and water services provided to the Unified Government of Wyandotte County/Kansas City, Kansas.



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## **Debt Capacity**

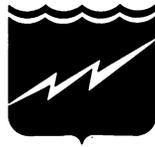
## Utility System Revenue Bonded Indebtedness Last Ten Fiscal Years

Fiscal Year	Gross Revenue (1)	Operating Expenses (2)	Current		Maximum Outstanding Annual Debt Service (3)	Coverage
			Year Net Revenue Available for Debt Service	Debt Service		
1997	162,591,583	105,685,332	56,906,251	19,974,670	2.85	
1998	161,070,333	108,583,374	52,486,959	23,762,894	2.21	
1999	174,920,936	119,736,307	55,184,629	26,142,132	2.11	
2000	177,972,709	123,631,092	54,341,617	26,142,132	2.08	
2001	175,399,140	127,369,706	48,029,434	26,142,132	2.11	
2002	194,836,463	133,764,651	61,071,812	27,512,785	2.21	
2003	202,691,757	145,425,897	57,265,860	27,127,411	2.11	
2004	212,478,539	154,234,239	58,244,300	32,509,058	1.79	
2005	229,794,624	163,244,271	66,550,353	34,463,496	1.93	
2006	262,047,645	181,735,688	80,311,957	34,463,496	2.33	

### FOOTNOTES

The most restrictive bond ordinance provides for historical net revenue coverage at 120 percent of the Maximum Outstanding Annual Debt Service.

- (1) Total operating revenues, interest on investments (excluding Construction Fund) and other.
- (2) Total operating expenses exclusive of depreciation and amortization and Payment in Lieu of Taxes payments.
- (3) Beginning 2004 the maximum outstanding annual debt service includes the payments required for the government loans.



## **Demographic and Economic Information**

## Electric Load Statistics in Kilowatts Last Ten Fiscal Years

Fiscal Year	<u>Generated</u> (1)	<u>Purchased</u> (2)	<u>Interchanged</u> (3)	<u>Total Kilowatts Available</u>	<u>Maximum System Gross Demand kW</u>	<u>Maximum Net Capability</u>
1997	2,592,129,000	234,559,000	-471,962,000	2,354,726,000	479,000	617,000
1998	2,520,730,000	371,641,600	-449,881,000	2,442,490,600	493,000	635,000
1999	2,253,112,000	560,882,100	-369,264,000	2,444,730,100	495,000	645,000
2000	2,574,410,000	419,032,800	-528,562,000	2,464,880,800	494,000	645,000
2001	2,448,006,000	481,883,800	-480,901,000	2,448,988,800	496,000	591,000
2002	2,419,119,000	440,956,700	-377,928,000	2,482,147,700	479,000	591,000
2003	2,604,283,000	307,766,300	-441,378,000	2,470,671,300	520,000	606,000
2004	2,524,179,000	493,322,600	-515,878,000	2,501,623,600	490,000	619,000
2005	2,511,552,000	555,384,500	-455,827,000	2,611,109,500	501,000	553,000
2006	2,368,434,000	627,907,900	-357,109,000	2,639,232,900	529,000	553,000

- NOTES:**
- 1) Generated amounts are net of system usage.
  - 2) Purchased amounts are net of borderline.
  - 3) Interchanged amounts include sales for resale which reduces total kilowatts available.

# Principal Electric and Water Customers Last Ten Fiscal Years

**2006**

**Principal Customers**

Constar Plastic  
 CertainTeed Corporation  
 GNB Battery  
 General Motors Corporation  
 Griffin Wheel  
 KCK Unified School District #500  
 Owens Corning Fiberglass  
 Procter and Gamble Manufacturing Co.  
 University of Kansas Medical Center  
 Water One of Johnson County, Kansas

Kansas Municipal Energy Agency  
 City of Columbia, Missouri  
 The Energy Authority  
 Tenaska Power Services Co  
 City of Bonner Springs  
 LanDel Water District  
 Leavenworth County Rural Water District  
 Suburban Water Inc.

**Wholesale Contracts**

**Type of Business Activity**

Plastic Manufacturer  
 Insulation Manufacturer  
 Battery Manufacturer  
 Auto Production  
 Railroad Wheel Manufacturer  
 Public School System  
 Insulation Manufacturer  
 Cleaning Products Manufacturer  
 Hospital  
 Water District

Electric  
 Electric  
 Electric  
 Electric  
 Water  
 Water  
 Water  
 Water

**2005**

**Principal Customers**

ConAgra  
 CertainTeed Corporation  
 Colgate Palmolive Co.  
 General Motors Corporation  
 Griffin Wheel  
 KCK Unified School District #500  
 Owens Corning Fiberglass  
 Procter and Gamble Manufacturing Co.  
 University of Kansas Medical Center  
 Water One of Johnson County, Kansas

Kansas Municipal Energy Agency  
 City of Columbia, Missouri  
 The Energy Authority  
 City of Bonner Springs  
 LanDel Water District  
 Leavenworth County Rural Water District  
 Suburban Water Inc.

**Wholesale Contracts**

**Type of Business Activity**

Food Manufacturer  
 Insulation Manufacturer  
 Soap Manufacturer  
 Auto Production  
 Railroad Wheel Manufacturer  
 Public School System  
 Insulation Manufacturer  
 Cleaning Products Manufacturer  
 Hospital  
 Water District

Electric  
 Electric  
 Electric  
 Water  
 Water  
 Water  
 Water

**Principal Electric and Water Customers  
Last Ten Fiscal Years (Continued)**

**2004**

**Principal Customers**

ConAgra  
 CertainTeed Corporation  
 Colgate Palmolive Co.  
 General Motors Corporation  
 Griffin Wheel  
 KCK Unified School District #500  
 Owens Corning Fiberglass  
 Procter and Gamble Manufacturing Co.  
 University of Kansas Medical Center  
 Water District No. 1 of Johnson County, Kansas

Kansas Municipal Energy Agency  
 City of Columbia, Missouri  
 The Energy Authority  
 City of Bonner Springs  
 LanDel Water District  
 Leavenworth County Rural Water District  
 Suburban Water Inc.

**Wholesale Contracts**

**Type of Business Activity**

Food Manufacturer  
 Insulation Manufacturer  
 Soap Manufacturer  
 Auto Production  
 Railroad Wheel Manufacturer  
 Public School System  
 Insulation Manufacturer  
 Cleaning Products Manufacturer  
 Hospital  
 Water District

Electric  
 Electric  
 Electric  
 Water  
 Water  
 Water  
 Water

**2003**

**Principal Customers**

ConAgra  
 CertainTeed Corporation  
 Colgate Palmolive Co.  
 General Motors Corporation  
 Griffin Wheel  
 KCK Unified School District #500  
 Owens Corning Fiberglass  
 Procter and Gamble Manufacturing Co.  
 University of Kansas Medical Center  
 Water District No. 1 of Johnson County, Kansas

**Wholesale Contracts**

**Type of Business Activity**

Food Manufacturer  
 Insulation Manufacturer  
 Soap Manufacturer  
 Auto Production  
 Railroad Wheel Manufacturer  
 Public School System  
 Insulation Manufacturer  
 Cleaning Products Manufacturer  
 Hospital  
 Water District

Electric  
 Electric  
 Electric  
 Water  
 Water  
 Water

**Principal Electric and Water Customers  
Last Ten Fiscal Years (Continued)**

2002	
<p><b><u>Principal Customers</u></b>                      Armour Swift-Eckrich, Inc.                      CertainTeed Corporation                          Constar Plastics                      General Motors Corporation                          Griffin Wheel                      KCK Unified School District #500                      Owens Corning Fiberglass                      Procter and Gamble Manufacturing Co.                      University of Kansas Medical Center                      Water District No. 1 of Johnson County, Kansas</p> <p><b><u>Wholesale Contracts</u></b>                      Kansas Municipal Energy Agency                      City of Columbia, Missouri                          LanDel Water District                      Leavenworth County Rural Water District                          Suburban Water Inc.</p>	<p><b><u>Type of Business Activity</u></b>                      Food Manufacturer                      Insulation Manufacturer                      Manufacturer of Plastic Containers                          Auto Production                      Railroad Wheel Manufacturer                          Public School System                      Insulation Manufacturer                      Cleaning Products Manufacturer                          Hospital                      Water District</p> <p>Electric                      Electric                      Water                      Water                      Water</p>
<p><b><u>Principal Customers</u></b>                      Armour Swift-Eckrich, Inc.                      CertainTeed Corporation                          Colgate Palmolive Co.                      General Motors Corporation                          Griffin Wheel                      Burlington Northern Sante Fe Railway                      Owens Corning Fiberglass                      Procter and Gamble Manufacturing Co.                      University of Kansas Medical Center                      Water District No. 1 of Johnson County, Kansas</p> <p><b><u>Wholesale Contracts</u></b>                      Kansas Municipal Energy Agency                      The City of Columbia, Missouri                          LanDel Water District                      Leavenworth County Rural Water District</p>	<p><b><u>Type of Business Activity</u></b>                      Food Manufacturer                      Insulation Manufacturer                      Soap Manufacturer                          Auto Production                      Railroad Wheel Manufacturer                          Railroad                      Insulation Manufacturer                      Cleaning Products Manufacturer                          Hospital                      Water District</p> <p>Electric                      Electric                      Water                      Water</p>

**Principal Electric and Water Customers  
Last Ten Fiscal Years (Continued)**

<b>2000</b>	
<p><b><u>Principal Customers</u></b>                      Armour Swift-Eckrich, Inc.                      CertainTeed Corporation                      Burlington Northern Sante Fe Railway                      General Motors Corporation                          Griffin Wheel                          Colgate-Palmolive Co.                      Owens Corning Fiberglass                      Procter and Gamble Manufacturing Co.                      University of Kansas Medical Center                      Water District No. 1 of Johnson County, Kansas</p>	<p><b><u>Type of Business Activity</u></b>                      Food Manufacturer                      Insulation Manufacturer                          Railroad                          Auto Production                      Railroad Wheel Manufacturer                      Soap Manufacturer                      Insulation Manufacturer                      Cleaning Products Manufacturer                          Hospital                          Water District</p>
<b><u>Wholesale Contracts</u></b>	
<p>Kansas Municipal Energy Agency                      City of Columbia, Missouri                      LanDel Water District                      Leavenworth County Rural Water District</p>	<p>Electric                      Electric                      Water                      Water</p>
<b>1999</b>	
<p><b><u>Principal Customers</u></b>                      Armour Swift-Eckrich, Inc.                      CertainTeed Corporation                          Constar Plastics                      General Motors Corporation                          Griffin Wheel                          Americold                      Owens Corning Fiberglass                      Procter and Gamble Manufacturing Co.                      University of Kansas Medical Center                      Water District No. 1 of Johnson County, Kansas</p>	<p><b><u>Type of Business Activity</u></b>                      Food Manufacturer                      Insulation Manufacturer                      Manufacturer of Plastic Containers                          Auto Production                      Railroad Wheel Manufacturer                          Cold Storage                      Insulation Manufacturer                      Cleaning Products Manufacturer                          Hospital                          Water District</p>
<b><u>Wholesale Contracts</u></b>	
<p>Kansas Municipal Energy Agency                      The City of Columbia, Missouri                          Garnet, Kansas                      LanDel Water District                      Leavenworth County Rural Water District</p>	<p>Electric                      Electric                      Electric                      Water                      Water</p>

**Principal Electric and Water Customers  
Last Ten Fiscal Years (Continued)**

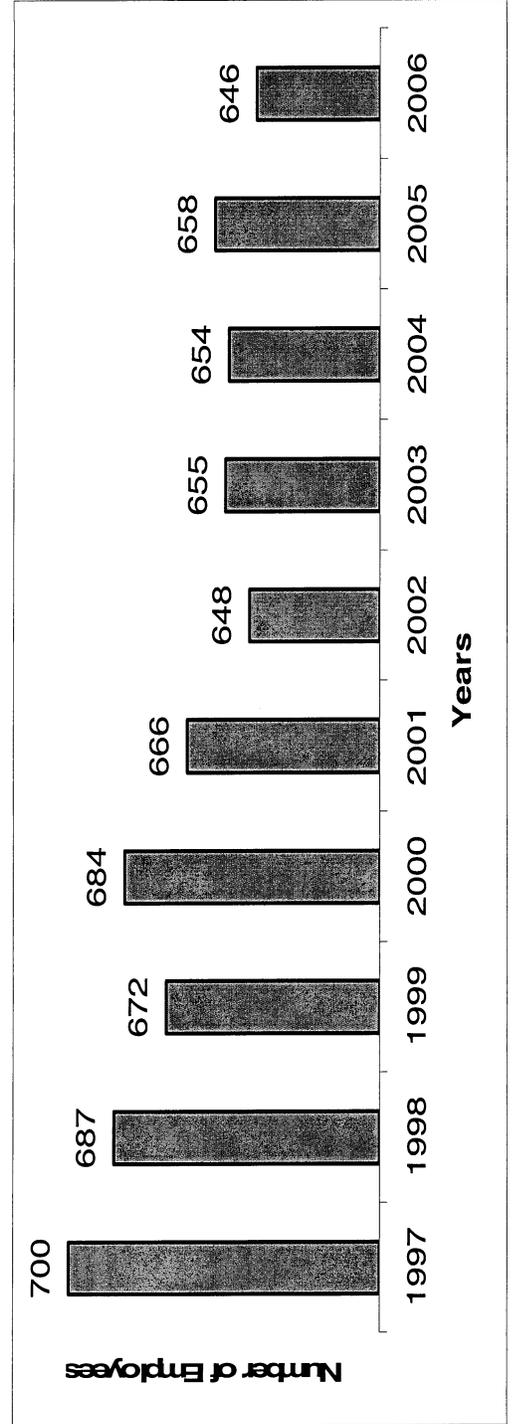
<b>1998</b>	<p><b><u>Principal Customers</u></b>          Armour Swift-Eckrich, Inc.          CertainTeed Corporation              Americold          General Motors Corporation              Griffin Wheel              Constar Plastics          Owens Corning Fiberglass          Procter and Gamble Manufacturing Co.          University of Kansas Medical Center          Water District No. 1 of Johnson County, Kansas</p> <p style="text-align: center;"><b><u>Wholesale Contracts</u></b>          Kansas Municipal Energy Agency          City of Columbia, Missouri</p>	<p><b><u>Type of Business Activity</u></b>          Food Manufacturer          Insulation Manufacturer              Cold Storage              Auto Production          Railroad Wheel Manufacturer          Manufacturer of Plastic Containers              Insulation Manufacturer          Cleaning Products Manufacturer              Hospital              Water District</p> <p style="text-align: center;">Electric Electric</p>
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<b>1997</b>	<p><b><u>Principal Customers</u></b>          Armour Swift-Eckrich, Inc.          CertainTeed Corporation              Americold          General Motors Corporation              Griffin Wheel              Constar Plastics          Owens Corning Fiberglass          Procter and Gamble Manufacturing Co.          University of Kansas Medical Center          Water District No. 1 of Johnson County, Kansas</p> <p style="text-align: center;"><b><u>Wholesale Contracts</u></b>          Kansas Municipal Energy Agency          The City of Columbia, Missouri</p>	<p><b><u>Type of Business Activity</u></b>          Food Manufacturer          Insulation Manufacturer              Cold Storage              Auto Production          Railroad Wheel Manufacturer          Manufacturer of Plastic Containers              Insulation Manufacturer          Cleaning Products Manufacturer              Hospital              Water District</p> <p style="text-align: center;">Electric Electric</p>
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# Employee Data Last Ten Fiscal Year

Fiscal Year	Salaries	Employee Benefits and Payroll Taxes (1)	Total Salary And Benefits (2)	Number of Employees As of December 31, (3)
1997	33,175,897	20,480,272	47,963,868	700
1998	34,143,728	18,373,497	46,790,548	687
1999	35,160,663	18,594,549	48,136,894	672
2000	36,302,707	19,860,821	50,550,827	684
2001	38,158,783	19,585,515	51,847,158	666
2002	39,083,161	21,652,804	54,300,512	648
2003	40,973,315	22,986,055	57,383,705	655
2004	42,828,183	23,675,917	59,620,450	654
2005	44,713,512	25,027,720	62,554,049	658
2006	46,424,254	27,000,469	65,277,536	646

- (1) Includes compensated absences that are also included in salaries
- (2) Excludes paid time not worked.
- (3) Excludes temporary employees and employees on long-term disability.



# Unified Government of Wyandotte County/Kansas City, Kansas Demographic and Economic Statistics

Last Ten Fiscal Years

<u>Year</u>	<u>Population</u>	<u>Personal Income (thousands of dollars)</u>	<u>Per Capita Personal Income</u>	<u>Public School Enrollment</u>	<u>Unemployment Rate</u>
1997	157,858 (2)	\$ 2,825,500	\$ 17,899 (3)	30,708	
1998	158,728 (2)	2,970,118	18,712 (3)	30,154	
1999	157,980 (2)	3,008,413	19,043 (3)	29,733	
2000	157,882 (1)	3,121,959	19,774 (3)	29,694	6.4% (5)
2001	158,474 (2)	3,259,969	20,571 (4)	29,161	7.6%
2002	157,694 (2)	3,390,263	21,499 (4)	29,057	9.9%
2003	156,822 (2)	3,391,903	21,629 (4)	28,823	11.2%
2004	155,787 (2)	3,501,313	22,475 (4)	28,547	8.8%
2005	155,704 (2)	3,597,385	23,104 (4)	28,024	8.8%
2006	155,509 (2)	3,693,494	23,751 (4)	27,933	8.4%

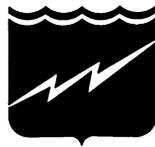
Includes Kansas City Kansas #500, Turner #202, Piper #203, Bonner Springs #204 and the Parochial schools within Wyandotte County.

Notes:

- <sup>1</sup> 2000 U.S. Census Counts
- <sup>2</sup> U.S. Dept of Commerce, Bureau of Census, Local Population Estimates, March 2005
- <sup>3</sup> Bureau of Economic Analysis
- <sup>4</sup> Estimates based on trends
- <sup>5</sup> Due to changes made by the Kansas Dept of Labor on how employment statistics are calculated, 2000 or later years are not comparable to prior years. Therefore, the data is not shown above.



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## **Operating Information**

### Utility System Plant Additions

Last Ten Fiscal Years

	1997	1998	1999	2000	2001
<b>Electric</b>	7,981,083	17,798,552	34,217,766	16,590,921	19,481,720
<b>Water</b>	7,059,762	17,315,640	34,237,699	2,688,813	5,091,476
<b>Total</b>	\$ 15,040,845	\$ 35,114,192	\$ 68,455,465	\$ 19,279,734	\$ 24,573,196

	2002	2003	2004	2005	2006
<b>Electric</b>	20,953,383	24,866,773	39,015,220	71,753,084	41,461,634
<b>Water</b>	5,238,346	6,216,693	20,732,148	19,017,017	22,365,459
<b>Total</b>	\$ 26,191,729	\$ 31,083,466	\$ 59,747,368	\$ 90,770,101	\$ 63,827,093

\* Utility Plant Additions Total taken from Statement of Cash Flows.